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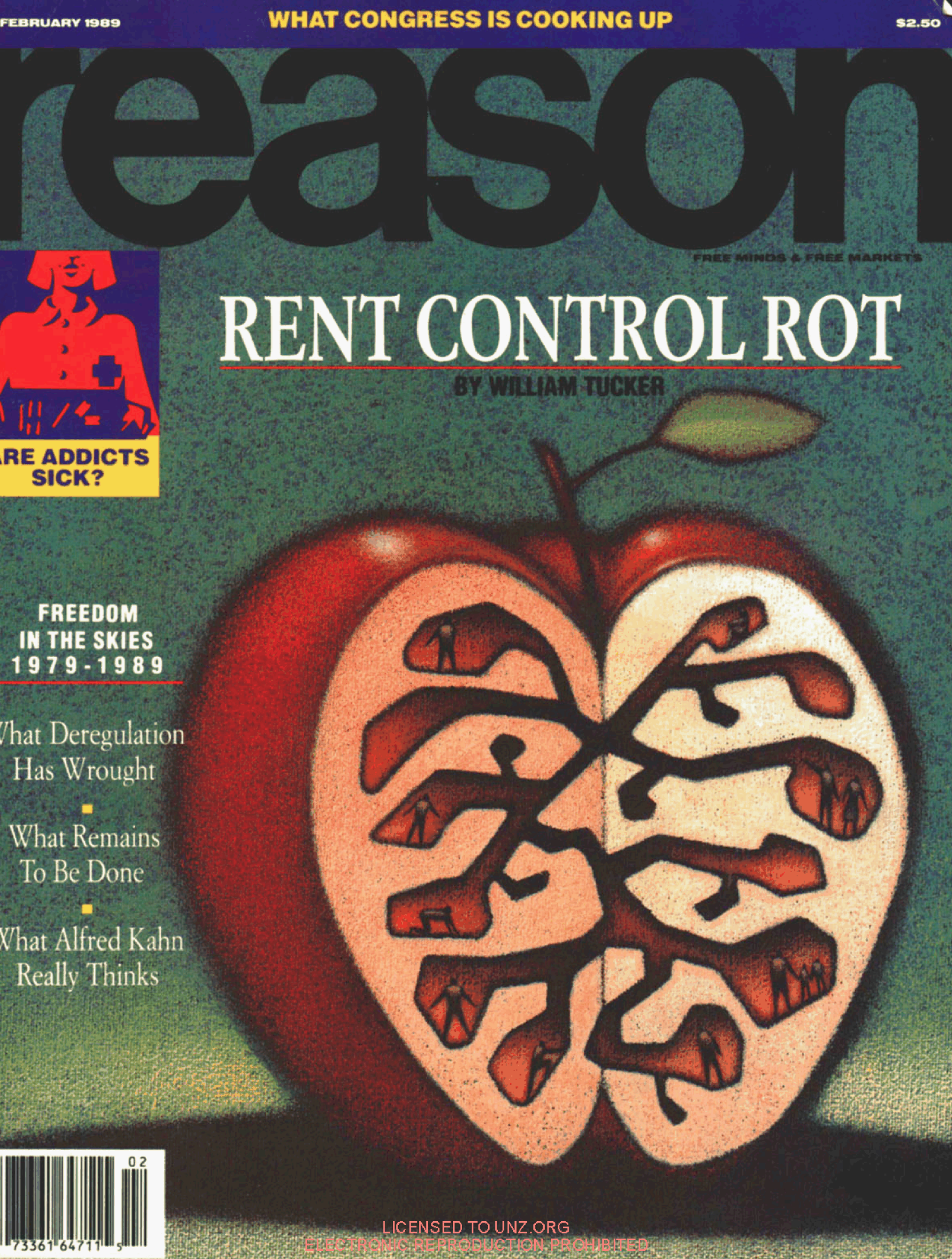

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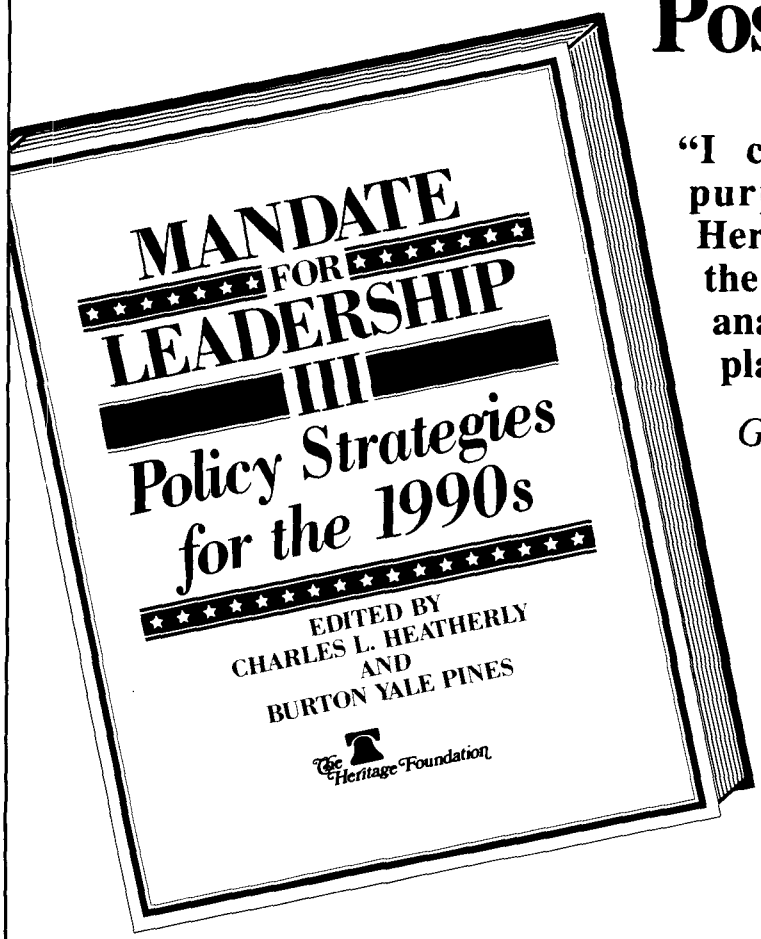

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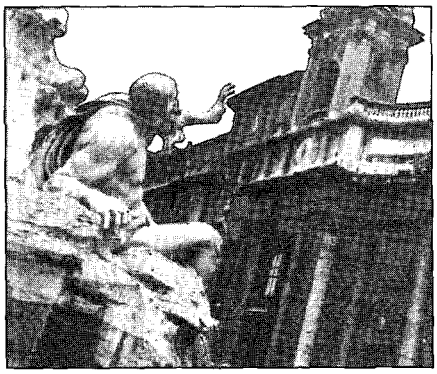

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LETTERS

Maggie, Listen Up

In its recent zeal to shower Mrs. Margaret Thatcher with well-deserved accolades for resurrecting the British economy, the American press, including apparently REASON ("Maggie for President," Editorials, Oct.), has lost sight of the fact that there is another, much less appealing, side to Thatcherism: antipathy to the concept of a tolerant, open, and pluralist society.

In the last six months, the Thatcher government's record on civil liberties has been nothing short of appalling. In the spring, the government passed Clauses 28 and 29 of the Education Bill, which virtually prohibit discussion of homosexuality in British classrooms, even in an academic context. The prime minister recently reiterated her opposition to a British freedom-of-information act and in fact proposed a new, even more restrictive, Official Secrets Act.

October 1988 was a particularly alarming month for British civil libertarians. The government adopted no less than four measures that offended the principles of freedom. First, the government banned broadcast-journalism interviews with members of Sinn Fein, the political arm of the IRA, and of the Ulster Unionists, both of which are legal political organizations. Then, Mrs. Thatcher fired several civil servants (not, in itself, a bad thing) for the sole reason that they refused to quit their union (again, a legal organization). Next, the government decided to reverse the burden of proof in certain criminal trials (those of suspected terrorists), thus making the accused guilty until proven innocent. Finally, the government ended a criminal suspect's right to remain silent at a police interrogation without having negative inferences drawn in court. (See *The Economist*, Oct. 29, 1988, pp. 15-16.)

Without question, the Thatcher government's policies are infinitely preferable to the irrational, socialist alternative offered by the opposition Labour Party. Also I, like REASON, would prefer Mrs. Thatcher to the nonentities advanced for the U.S. presidency by the two major American parties. But this does not mean very much—merely that competence is better than mediocrity. Being a good leader requires more than mere competence. It takes vision (the thing that Mr. George Bush could not seem to understand), and a fundamental understanding and respect for the rights of the people.

A government "will only achieve higher growth, only release enterprise, only spur people to greater effort, only obtain their full-hearted commitment to reform, when people have the dignity and enjoyment of personal and political liberty, when they have the freedom of expression, freedom of association, and the right to form free and independent trade unions." Or so said Mrs. Margaret Thatcher, in a November 3, 1988, speech to the Polish government at a state banquet in Warsaw. Someone should explain Mrs. Thatcher's words to her.

P. Michael Donlan
Boston, MA

Boo to the Cheering Theory

In his editorial "Why Vote?" (Nov.), Craig M. Collins implicitly accepts the cumulative value of votes as cheers for a party, but he discounts their cumulative value as a way of determining the winner of the election. He correctly points out the infinitesimal chance that one more vote for any candidate will influence the outcome but neglects the fact that in a close election even a modest number, following his advice, of votes for a third-party candidate (perhaps enough to make an audible cheer) may exceed the winner's margin of victory. If all these voters would have preferred the major-party loser to this winner, they would have obtained a more satisfactory outcome by voting for this candidate and thereby making *him the winner*.

It is in this sense that a vote for a

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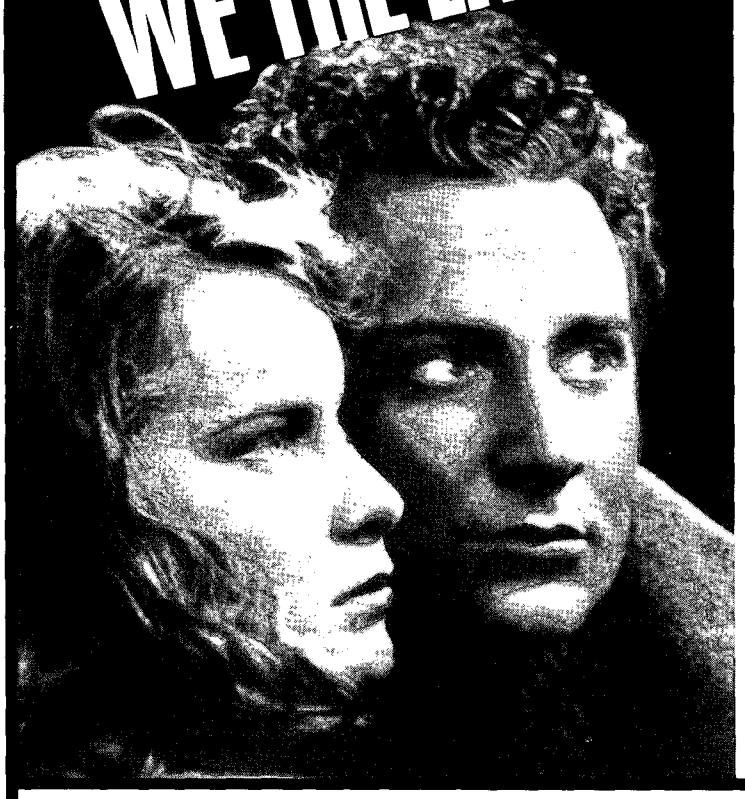

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third-party or independent candidate may be wasted. Though the perception of such wasted votes may be accurate, it indicates that the vote third parties receive must be less—perhaps far less—than the number of voters who would choose them if they could have them. It is inadequate as a representation of their potential support.

The trouble is not with the integrity of voters but with the election procedures in general use in this country, which are not well suited to a multiparty system. The presidential election, of course, is complicated by the electoral college, but in the more usual plurality system where the candidate wins who gets the most votes, one can win with a minority of the votes cast. It is quite possible that a majority is split between two others and would prefer either of them to the winner but cannot vote without choosing between them.

Faced with the necessity of voting for only one candidate if any, we who live in this country's western-most time zones still have the advantage sometimes of being able to find out the winner of a presidential election before we vote. We are then free to cheer for any candidate or party without regard to any cumulative effect on the outcome. I vote for a third party, as Collins suggests, but only if I can first learn who will win.

Herbert Rempel
Walla Walla, WA

Marcos Enhancing Liberty?

Michael McMenamin's review of *The Predator's Ball* ("Hero or Hustler?" Dec.) contained some choice comments on the character and morals of U.S. Attorney Rudolph Giuliani. However, I suspect that Mr. Giuliani's ambitions, if not his career, may come to an inglorious end. I refer to the racketeering indictment Giuliani has obtained against Ferdinand Marcos, Imelda Marcos, and several others. Many of them have just plea-bargained their way out of trouble. But Ferdinand Marcos himself is something else.

If you are going to tangle with Ferdinand E. directly, you not only have to be as good as Giuliani thinks he is, you had also better be the epitome of a Boy Scout. Any hidden agenda on your part, any pulling of punches to avoid embarrassment, any false posturing, or any other manifestation of base motives, and Marcos will chew you up and spit you out. He is *the* past master of manipulating statist desires into self-destruction. If this one comes to trial, I predict that we shall see a masticated and regurgitated prosecutor on the courtroom floor. I shall shed no tears over that. Marcos can no longer do us any harm. He may wind up doing us some good.

The Racketeer Influenced and Corrupt Organizations Act (RICO) is nothing but a fancy conspiracy law. Almost anybody can be convicted for almost anything under its terms. It must go. Should Marcos happen to be the one who sends it on its way, he will have (quite inadvertently, mind you) done more to enhance liberty than to destroy it. His highly refined instinct for self-preservation will have led

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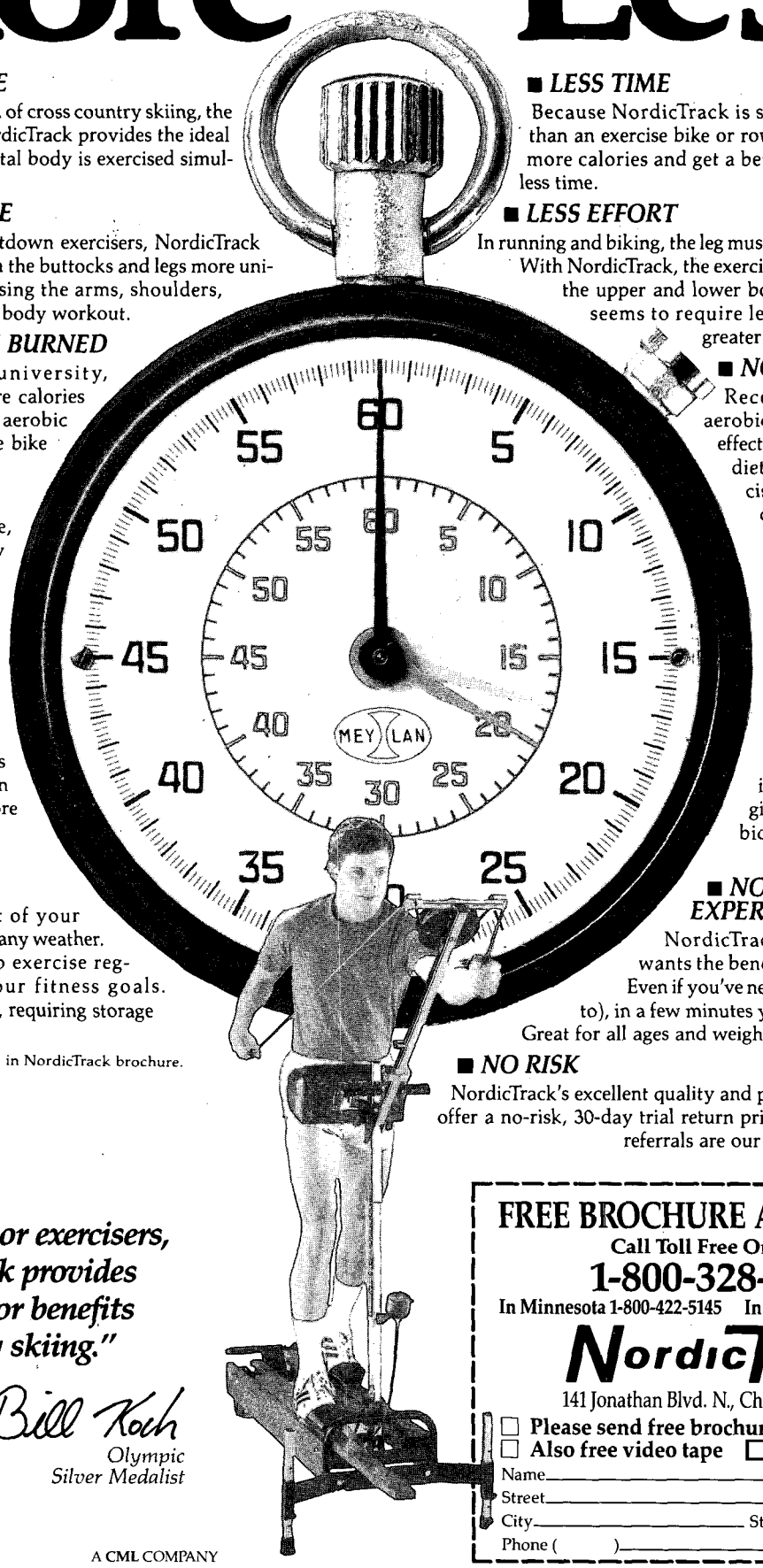

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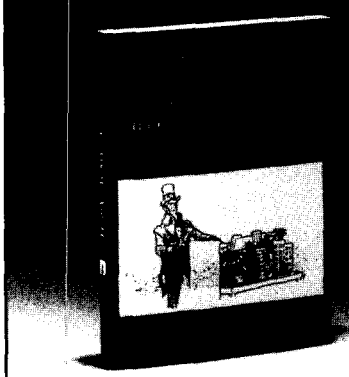

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LETTERS

him to negate his lifelong crusade to subjugate all who came within his sphere. This will cause him as much distress as he causes Giuliani. As Jackie Gleason would say: "How sweet it is!"

Dave Hanley
San Bruno, CA

Reclaiming Our Neighborhoods

Charles Murray's cogent examination of volunteerism and its connection to a freer society ("3-D Living," Nov.) poses a great challenge: Do we serve our neighbor, or do we turn away and allow the federal government to fill the void with costly, intrusive, and clumsy programs?

Our neighborhood platoons are alive. They hustle clothes and food to evicted mothers, they buy uniforms for inner-city Little Leaguers, and they replenish the blood supply when the alarm sounds.

Sometimes platoons inspire a nation. Do you remember "Baby Jessica"? She brought oilfield roughnecks to tears while the city of Midland, Texas, struggled for 58 hours to free her. How about the whales of October, three grays trapped beneath an encroaching blanket of Arctic ice while Eskimos and corporate oil men toiled to save them?

Platoons show us we matter. And Murray explains, by suggestion, why the work available to platoons is diminishing. Platoons form to fill "holes in the safety net," which, after all of us have gone back home, are almost always targeted for filling by our beneficent bureaucracy. Until we reassume the role of filling in the holes in our own communities, the gulf between the haves and have-nots will widen and disillusionment will deepen. Trading freedom, compassion, and self-worth for supervised isolation is a lousy deal.

Major E. Garret
Houston, TX

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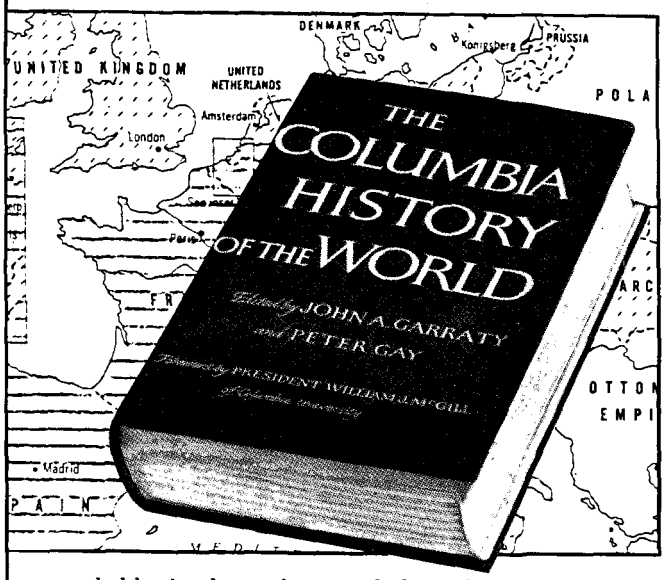

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A FREEZE IS NOT ENOUGH

ROBERT W. POOLE, JR.

As George Bush takes the oath of office to become this country's 41st president, a near-consensus is emerging that the budget deficit must be eliminated. Unfortunately, Congress, the president, and most of the media are covering up the true extent of the deficit, thereby masking the need for serious cuts in government programs.

Virtually every discussion of "the deficit" uses the number addressed by the Gramm-Rudman law. That number is actually the sum of two others: the federal government's operating deficit plus the surplus or deficit of the Social Security trust fund. The latter is beginning to run a huge surplus—courtesy of the higher FICA taxes that you and your employer have been paying in the '80s. And with that surplus, of course, the sum of the two numbers masks the real size of what ordinary citizens mean by the "federal budget deficit." For 1988, instead of the $155-billion figure that we hear so frequently, the *real* deficit is $252 billion, according to the General Accounting Office. And this real deficit is projected to continue growing, not shrinking, in the years ahead.

What is more, that projection is based on "other things being equal." It excludes two major, predictable contingencies for the next few years. One is the highly probable taxpayer bailout of the federal government's savings & loan insurance program—which could total between $50 billion and $100 billion. And the other is a recession (remember them?), which could easily add another $50-100 billion to the deficit (since a slowdown in business activity means lower income-tax revenues and higher claims for welfare and unemployment benefits.)

Japanese bankers and other key players in the economy are well aware of these facts. That's why they will continue to demand higher real interest rates to hold the government's bonds—unless and until the real deficit is brought under control.

Of course, what you hear from many members of Congress, and nearly every expert opining on the editorial pages of the nation's newspapers, is that the only alternatives we face are to raise taxes, raise taxes, or raise taxes. But even if George Bush had not pledged to avoid that route, it is simply not an effective way to cut the deficit.

Congress, of course, has powerful incentives to spend any new revenues. But also, because of the way the Gramm-Rudman law is worded, setting annual *deficit* targets, any increase in revenue simply boosts the amount Congress is "permitted" to spend that year. So raising taxes holds no hope of ending the deficit.

Nor does the "flexible freeze" proposed by Bush and advisor Michael Boskin. Merely holding down the rate of growth in spending, to keep it below the (assumed) continued growth in revenues, is unlikely to meet the Gramm-Rudman targets, let alone tackle the real deficit. To do that requires *real* cuts—and that means *eliminating bad programs*.

The consensus on the evil of the deficit offers us as a nation the best chance in several decades to force a hard look at where federal dollars are going—and to call a halt to indefensible programs. In eight years of Ronald Reagan, the only turkeys that were actually killed were General Revenue Sharing ($5 billion a year) and Urban Development Action Grants ($225 million). Now that the health of our economy is literally at stake, isn't it time to "just say no" to a host of boondoggles and plums for special interests? For example:

- farm subsidies that lead to higher food prices (about $25 billion a year),
- the space station (a $30-billion public works project for aerospace),
- the Superconducting Supercollider (another $5 billion worth of science pork),
- transit grants to build subways in places like Los Angeles and to subsidize the operation of inefficient bus lines ($3.8 billion a year).

There are tens of billions more of this sort of thing, larded throughout the federal budget—not even counting any of the so-called entitlement programs (lavish federal retirement benefits, Medicare, etc.), which could at least be frozen for a few years.

Then there are the commercial assets of the federal government. Last year's Privatization Task Force—a sort of "shadow group" that stepped in where the President's Commission on Privatization feared to tread—identified over $300 billion worth of lands and business enterprises that could be sold off over a period of years if we are serious about eliminating the deficit. Among these are $150 billion worth of government-owned commercial timberlands (*not* national parks or wilderness areas), the TVA, the Postal Service, the air traffic control system, and many others.

While the easiest thing would be to count the proceeds from such sales as revenue when received, the more sensible approach would be to use asset-sale revenues to retire federal debt, which would also help the deficit situation. If implemented, such asset sales would produce ongoing savings in interest costs of some $28 billion, as well as reducing the burden on future generations.

Nor should defense spending be off-

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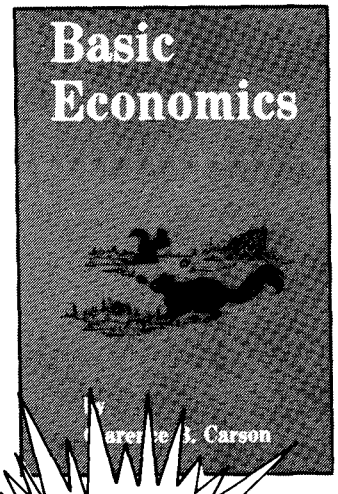

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limits. Now is a golden opportunity to rethink the missions of U.S. military forces and to make hard trade-offs among weapons systems to accomplish those missions.

It is high time we decided—with plenty of advance notice to our NATO allies—to start withdrawing our troops from Europe, bringing them home and demobilizing them. With a combined gross domestic product of nearly $4 trillion, Europe can no longer make the argument that it can't afford to defend itself. A 10-year phase-out would not only save the manpower costs but would produce major savings in weapons procurement (tanks, tactical weapons, etc.).

We must also decide which big-ticket strategic programs are really necessary—and then build those at efficient rates (rather than keeping them all and stretching them out so that unit costs balloon). We don't, for example, need both the rail-mobile MX missile and the mobile Midgetman; procuring only one would save at least $20 billion. And it's not clear that there is really a mission for the $65-billion B-2 stealth bomber program. Cutting back on overseas deployments would undercut the navy's case for two more aircraft-carrier battle groups, each one of which gobbles up $40-50 billion over its lifetime.

In short, there are plenty of ways to cut the budget. And cuts—massive cuts—are what we need to put our fiscal house in order. George Bush has a great opportunity to ask the questions about federal spending that have been avoided during the past eight years. Let's hope he has the courage to do so.

THOU SHALT NOT COVET

VIRGINIA I. POSTREL

For eight years, greed has been the most fashionable vice. It has made the cover of *Time* and won Michael Douglas an Academy Award. It has helped countless editorial writers fill countless column inches. Denounce greed in the '80s and you demonstrate purity, both spiritual and ideological.

The '80s are almost over. And now that we have a preppy president instead of a *nouveau riche* one, the greed-bashers are hoping for a return to the good old days before investment bankers, *Vanity Fair*, and Donald Trump. Before tax cuts, leveraged buyouts, and entrepreneurship. Before greed.

Greed, you may have noticed, is a pretty slippery concept. It's not just a matter of money. You never hear anyone call zillionaire capitalist Jane Fonda greedy. But some Goldman Sachs drone working 70-hour weeks, now *he* is greedy.

Greed just isn't much of a word. It lacks precision. Does it simply mean wanting things? Wanting the wrong things? Not wanting the right things? Wanting to keep the things you have? Wanting to have more things? Is it a matter of morality, or just a matter of taste?

We ought to find a more-precise vice. I'd suggest *covetousness*. To covet means not just to want things but to want things that belong to other people. And of *that* vice the American body politic is woefully guilty.

Indeed, while the covetous scheme to grab other people's property, they often denounce their victims as "greedy." ("Greedy landlords" is a particular favorite.) Supporters of the California initiative requiring insurance companies to roll back their prices frequently resorted to this tactic. By portraying the insurance companies as greedy, they convinced voters that there was nothing wrong with stealing from them.

When they blur the distinction between wanting to take from others and wanting to earn (or keep) your own property, the greed-bashers undermine the whole idea of private property. And, contrary to what they'd have us believe, our society won't decay just because some people want big houses, beautiful clothes, excellent educations, or even pretentious yachts. Greed won't make us decadent. But covetousness will.

At the local level, for instance, coveting your neighbor's house has completely corrupted government. Real estate developers with covetous eyes can get the Community Redevelopment Agency to swipe whole neighborhoods with eminent domain power—then turn over the property at a fraction of its value. Tenants can push through rent control laws that give them effective ownership of their apartments. And voters with a hankering for nice views can pass zoning ordinances that turn the future site of someone's dream home into legally required "open space." In this struggle to take from others before they take from you, there is no room for anything as pure as honest greed.

The greatest monument to public covetousness is, of course, the federal budget. Item after item represents the forcible transfer of the goods of the many to satisfy the desires of the few. Some $400 billion a year—40 percent of the budget—goes directly to individuals.

But that's only the beginning. Plenty of other programs exist solely because some group has gotten its covetous hands on the public treasury. The Small Business Administration, for example, costs $1.2 billion a year to run and benefits only 0.2 percent of the nation's small businesses. Subsidies for the nation's 5 million farmers run $25 billion a year. The U.S. Travel and Tourism Administration spends $5 million a year to promote tourism to the United States—a little-known service to the nation's hotel industry. Five million here, five million there, and pretty soon it adds up to real money.

In his book *Takings*, legal scholar Richard Epstein suggests that the only *constitutional* use of tax money is to provide some good or service of equal value to the taxpayer. Just as the government must pay a homeowner "just compensation" if it takes his home to make room for a road, so it must justly compensate those from whom it takes money. Unbridled public covetousness has no place in a free society.

In the other *Vanity Fair*—the novel by Thackeray, not the trendy magazine—there are two great chapters called "How to Live on Nothing A-Year" and "The Subject Continued." In them, a dissolute couple live the good life, running up bills at honest tradesmen's shops, then skipping town heedless of the consequences. Thackeray's story provides a fitting metaphor for the state of our public weal:

"This was the way, then Crawley got his house for nothing: for though Raggles had to pay taxes and rates, and the interest of the mortgage to his brother butler;

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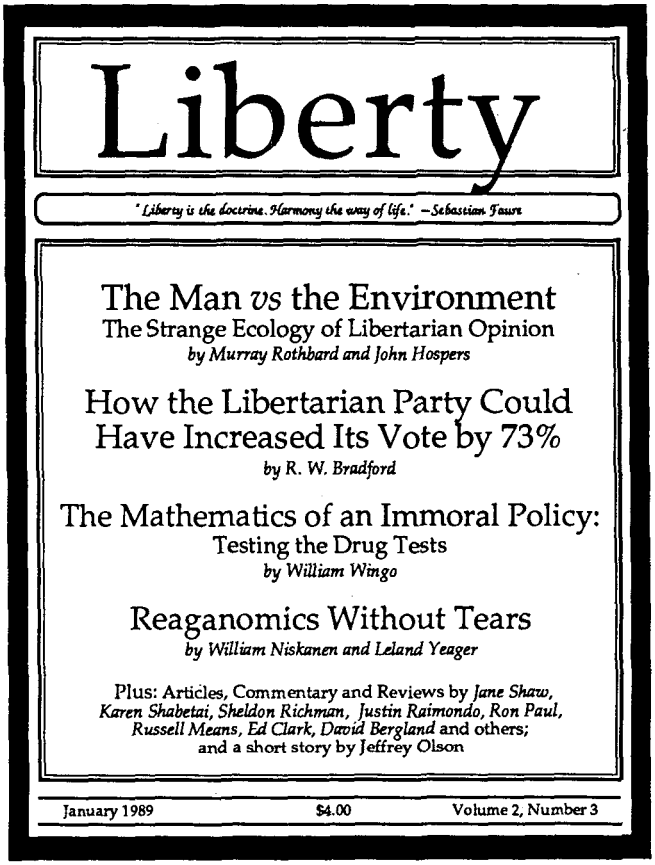
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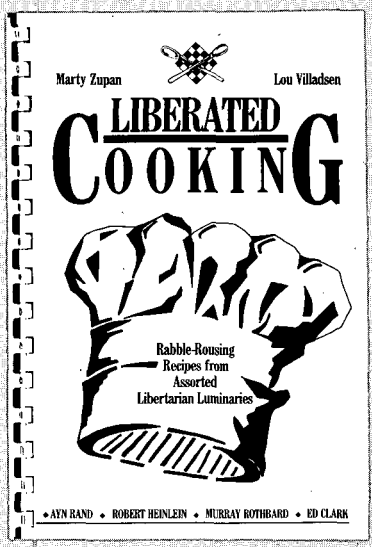
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EDITORIALS

and the insurance of his life; and the charges for his children at school; and the value of the meat and drink which his own family—and for a time that of Colonel Crawley too—consumed; and though the poor wretch was utterly ruined by the transaction, his children being flung on the streets, and himself into the Fleet Prison: yet somebody must pay even for gentlemen who live on nothing a-year."

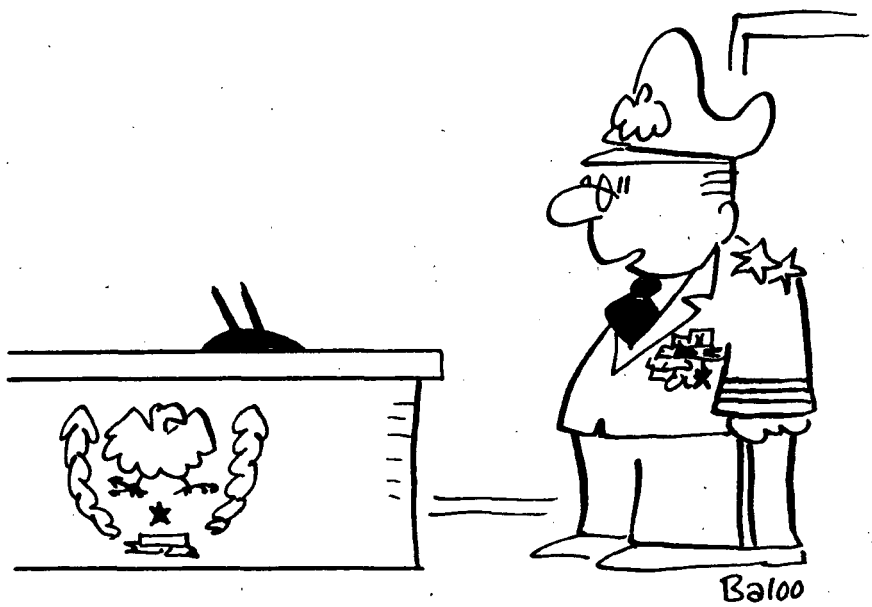
The problem with our political system is that we rob Raggles to pay Crawley and then denounce Raggles as greedy when he tries to keep what he has.

BY THE WAY...

■ Surely he jests? John Baker, editor of the trade magazine *Publishers Weekly*, is addressing 600 people at the annual confab of the 12-year-old Committee for the Scientific Investigation of Claims of the Paranormal. The conference theme is the New Age phenomenon, and Baker has harsh words for the publishing industry. Horror-fiction writer Whitley Strieber, for example, wrote a first-person account of an abduction by extraterrestrials, and his publisher packaged it as nonfiction (the bestseller *Communion*). "People seem eager to be misled," says Baker, but "I don't think that the rest of us should be helping them." Fair and true. But then this *editor* calls for a truth-in-publishing law—after all, we have truth-in-advertising laws. Baker might ponder a version of his own admonition: People seem eager to be misled—about the wisdom of government regulation. The rest of us shouldn't be helping them.

■ Meanwhile, Editor-in-Chief of *The New Republic* Martin Peretz, in an editorial on why Dukakis lost (really, it's because they didn't nominate my boy, Al Gore, but we can talk about Dukakis's personality and ideology if you insist), writes: "The only way that the American economy can be sustained prosperously"—this sounds promising; they might actually be taking prosperity seriously—"is by a wide-ranging scientific transformation of our national economy." Oh, jeez—a scientific transformation? Just when it seemed that liberal opinion leaders were beginning to recognize that markets are better than thickly veiled Marx.

■ A note to habitual readers of REASON: Starting with this issue, we've moved the Brickbats department, which has from time immemorial appeared right before Trends, to page 58. And we've dropped the Viewpoint column as such; whoever or whatever might have appeared there will now show up among the back-of-the-book columns that start right after the feature articles. r



"The bad news, Mr. President, is that an 11-year-old kid in Fort Wayne broke into the Pentagon computer—the good news is that he conquered Asia."

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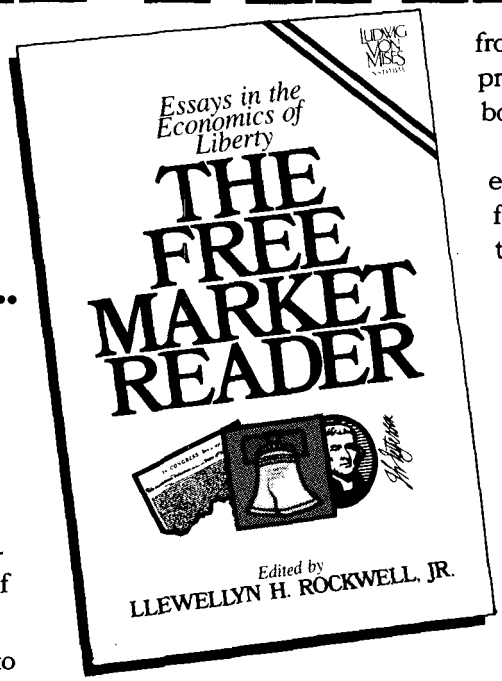

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TRENDS

The People Have Spoken

The voters certainly sent mixed messages on November 8, making George Bush president while increasing the Democratic majority in Congress. A look at the initiatives and referenda on state ballots only confirms this confusion.

Bush promised "no new taxes," and Nevada voters seemed to like the idea. They prohibited the legislature from creating a state income tax. But in neighboring Utah, voters soundly rejected initiatives to cap state spending and cut taxes. To make things even more confusing, Utah voters overwhelmingly went for Bush.

Nebraska voters approved an amendment to the state constitution guaranteeing citizens the right to bear arms. The amendment prevents local ordinances banning handguns. But across the country in Maryland, voters upheld a statewide ban on small, inexpensive handguns; urban voters tended to go for the ban, while suburban and rural residents opposed it.

Montanans refused to overturn a law requiring drivers to wear seatbelts. But Oregon voters defeated an initiative that mandated seatbelts. Smoking was another hot topic on the Oregon ballot. A ban on smoking in public places failed, but a measure to hike the cigarette tax passed.

California voters turned thumbs down on a proposition that would have required doctors to report to public health officials the names of anyone testing positive for the HIV virus. The proposal also would have forced anyone who has the virus to provide a list of sex partners. Voters then turned around and approved another proposition that requires suspects in sex crimes and some violent crimes to be tested for the virus.

Californians further confirmed their image of political instability with a series of insurance initiatives. They rejected one that would have cut auto insurance rates 20 percent for good drivers and another to slash bodily-injury and uninsured-motorist rates by half. On the other hand, voters approved a proposition that reduces all property and casualty insurance rates 20 percent. Californians rejected a move to ban limits on attorneys' fees in accident settlements. But they also refused to approve an initiative that *would* have limited attorneys' fees.

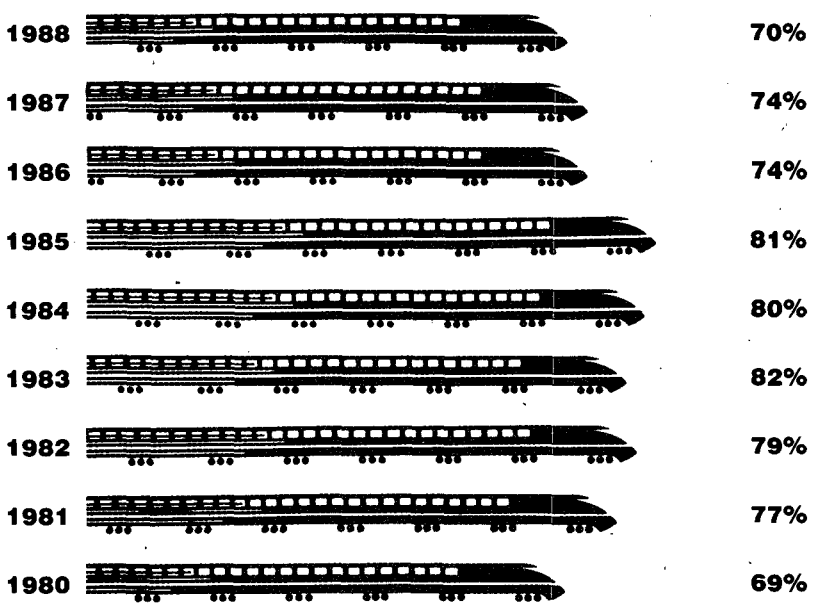
As H. L. Mencken once observed, democracy is the theory that the people know what they want and deserve to get it good and hard. —*Charles B. Oliver*

And You Thought the Airlines Were Late

Amtrak says consumer complaints jumped 15 percent in 1988. The biggest gripe was over delays: 30 percent of Amtrak's trains were late last year—the highest level since 1980. And Amtrak's definition of late is, well, a bit lenient. Amtrak considers a train on time if it arrives within five minutes of schedule on a trip of 150 miles or less. For each additional 100 miles, trains are given another five minutes. On a 600-mile trip, a train could arrive 29 minutes late and still be "on time."

But train service slipped in other ways. Passengers complained of dirty trains, broken air conditioners, and clogged toilets. Some riders even found mice on board. Ross Capon, executive director of the National Association of Railroad Passengers, told the *Wall Street Journal*, "If you leave food in your sleeping compartment, they're sure to show up."

"On-Time" Amtrak Arrivals



TERI KLASS

Revenge of the Citizen

Marv Paoli surveys his land overlooking the California coast.

Marv Paoli may never build the 10-room inn that he hoped to construct on his vacant land near the ocean. But perhaps he can take some comfort from knowing that he got even with the foot-dragging bureaucrats at the California Coastal Commission who stopped him. He successfully filed a claim against them under a little-known 1949 law that allows citizens to request disciplinary action against state employees.

Paoli sought a permit to build an inconspicuous, sod-roofed inn east of the coastal highway. The two commission staffers named in his complaint gave him a classic bureaucratic runaround. He gave them a written presentation to submit to the commissioners; they lost it the same day. They promised to let him know the commission's position as soon as it decided, but they never told him. The commission held a public hearing on his request but mailed his notice on the day of the hearing. The report the staffers eventually gave the commissioners was inaccurate in a number of ways detrimental to Paoli, and they were "generally uncooperative and failed to return his telephone calls," according to findings by the administrative law judge.

The judge fined the commission staffers 10 percent of their salary for 3 months. The decision has been upheld by a state court and is now on appeal (the commission employees are being represented at taxpayer expense by the attorney general's office).

The judge said that he hoped this fine would be severe enough to "convince them that the citizen is important and his property rights are important and that he cannot be deprived of those rights in a cavalier manner." Of course, the citizen still can be deprived of his property rights in a noncavalier manner. Paoli was. The permit was granted to him only on the condition that he give up (without compensation) the right to build anything elsewhere on his land.

—Craig M. Collins

Happy Homemakers

How would you like to buy a three-bedroom, two-and-a-half–bathroom house for less than $80,000? Thanks to housing deregulation, families in Seattle can do just that.

As media muckrakers wail about the nation's housing crunch and "middle-class squeeze," innovative policymakers are relaxing controls to let markets meet the need. In the Seattle suburbs, the U.S. Department of Housing and Urban Development has actually pressured local bureaucrats to exempt new projects from outdated regulations—allowing developers to cut costs with narrower streets, smaller lots, and cheaper building materials.

Outdated rules abound. For example, regulators in Seattle and across the country once demanded large cul-de-sacs to give firetrucks room to make U-turns. Most firetrucks now go in reverse. Towns are also waiving a costly rule requiring manholes every 300 feet, since new equipment can clean sewers for half a mile between manholes. The savings generated from deregulation are passed on to home buyers, who pay about $20,000 to $30,000 less for new houses in deregulated developments than they'd pay for similar homes in other Seattle suburbs.

Building codes are not the only regulations yielding to housing realities. Faced with dire apartment shortages, some local governments are legalizing the pervasive practice of families' renting out rooms and garages to singles and young couples. On Long Island, resistance to legalizing these apartments is high among some current homeowners, but local officials say it's the only way to keep up with housing demand. One official told the *New York Times* that the practice "is so widespread already, if you could get rid of accessory apartments, where are the people supposed to go?"

For the most fretted-over housing-crunch victims—the homeless—regulations are being swept aside to allow developers once again to build single-room occupancy hotels (SROs). Until cities imposed strict controls on them, forcing many out of business, these "welfare hotels" provided crucial last-rung housing.

New building standards in San Diego allow SRO developers to use plastic instead of expensive metal pipes and to exceed city parking and density rules. Renting one of the 565 new or renovated hotel rooms costs about half of the $500 a month that studio apartments go for.

Other city councils are expected to follow San Diego's lead—not because of a sudden conversion to free-market theory but because, faced with housing shortages and the public pressures they generate, cities can't afford not to. Regulating builders may make local politicians look powerful, but turning people out into the streets seems to make them look cruel.

—John Hood

"It is supremely ironic that the Reagan Administration should look to Moscow and discover set prices by the central government and then shove it down people's throats here. They could have tried competitive bidding or negotiation, but they opted for central planning."

—Princeton economist Uwe Reinhardt on Medicare pricing policies, quoted in the New York Times.

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RE 5

Write On

Public school students in Massachusetts don't have to worry about having their high school paper censored, despite a Supreme Court ruling giving administrators the power to do so. Under a new state law, students can "write, publish and disseminate their views" without "limitation."

The law is intended to counteract a High Court ruling in a case involving the student newspaper at St. Louis's Hazelwood High School. The Court ruled that the principal could block publication of two stories he didn't like. The decision gave broad power to public-school officials to censor student papers.

Mark Goodman, spokesman for the Student Press Law Center, contends that the Massachusetts action is not that radical. "The law simply codifies what had been the standard up until *Hazelwood*," he says. "Administrators can still censor articles that will cause a material disruption of school activities or a violation of other student rights."

Goodman believes other states will follow Massachusetts. Indeed, legislatures in Illinois, Iowa, Ohio, Rhode Island, Wisconsin, and Wyoming are considering similar measures. And California already has a student rights law that predates the Supreme Court decision.

In each of these states, the American Civil Liberties Union is a prime force behind the drive. "We're trying to encourage other states to do exactly what was done in Massachusetts," said Colleen O' Connor, director of public education for the ACLU. "We feel very strongly about the principle involved here."

—Charles B. Oliver

"Whenever we narcs got together we used to talk about how much dope we seized. Now it's, How much car did you get? What kind of money? Did you get a phone?"

—Sgt. Joe Klein, head of the Fullerton, California, Police Department's drug detail, on seizing assets from drug suspects, quoted in the Los Angeles Times.

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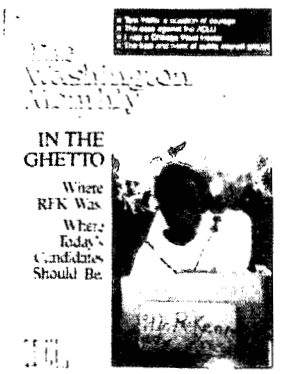

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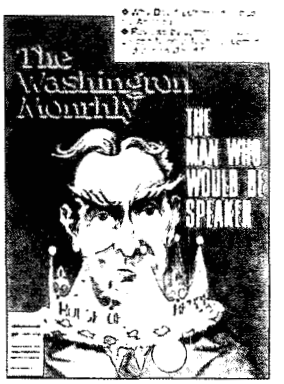

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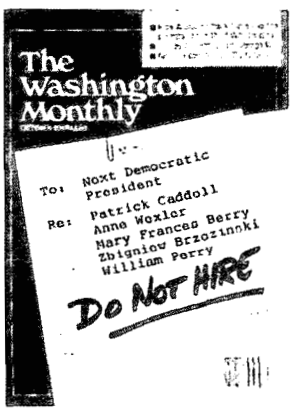

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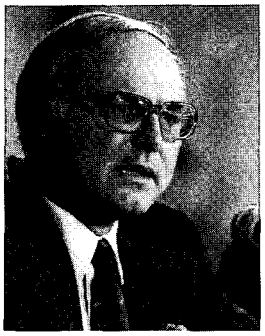
BALANCE SHEET

Assets

Trade Wins. Pol watchers push protectionism as a pick-me-up for sagging campaigns. Voters prefer prosperity. Would-be prime minister John Turner joins Michael Dukakis and Dick Gephardt as Canadian delegate to the demagogue-come-lately loser's circle.

Smurfs Up. Old radio hand Reagan vetoes the popular bill limiting commercials on kids' TV. (His soft spot for broadcasters' First Amendment rights will be missed.) Meanwhile, ratings leader NBC contemplates canning Saturday morning cartoons. There might be more money in adults.



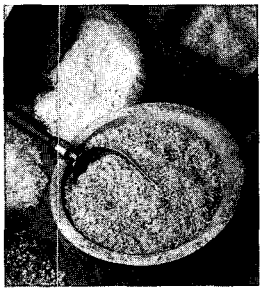
Michael Novak

New Enlightenment. Will classical liberalism supplant Marxism as a revolutionary doctrine? Ferment is greatest in countries all too familiar with Marxist realities. Underground presses in Poland turn out works by Hayek, Friedman, and Rand; Polish-American Michael Novak's *Spirit of Democratic Capitalism* is a hit. Latvian activists order a translation of the Declaration of Independence from their American supporters, who throw in the Constitution as well.

Last Hurrah. Bob Dole and friends may yet push through their beloved tax hikes, despite Bush's bravado. But one Reagan legacy seems secure: the end of bracket creep. Indexing for inflation saves the median-income family of four $212 this year. Don't spend it all in one place.

Liabilities

Wretched Refuge. "We're from the government and we're here to help" hits immigrants hard. The INS cracks down on "a modern system of slavery"—hiring illegal aliens to work in Wendy's at above-minimum wage. The fine: $60,000. The workers lose their jobs, of course. Meanwhile, an L.A. judge throws immigrant families into the street by forcing their resident landlord to tear down substandard (but cheap) housing.



Puffed Rice. The fuss over whether to batter down Japan's barriers to U.S. rice obscures more-basic questions. Why are Texas and California farmers growing rice in the first place? And in near-desert? If they paid anything near what their water is worth, they'd find less-thirsty crops to grow.

Artificial Preservatives. Cities landmark every site in sight, from Westwood movie theaters to Coney Island's Cyclone roller coaster. And they mean it. Montgomery County, Maryland, files criminal charges against a couple who illegally tore down their house; they face up to a year in jail and a $2,000 fine. "This is the next generation of historic preservation," says county code *oberstfuhrer* Mel Tull.

Faulty Policy. Insurance threatens to go from problem to "crisis," thanks to price controls. California's rate rollback promises to spread, à la rent control. Massachusetts won't let insurers sell anything if they drop heavily regulated car insurance; Allstate throws up its good hands and gets out.

—Virginia I. Postrel

Will They Do Windows?

Not long ago, technophobes warned that the advent of robots and computers would make the human worker obsolete. So far, at least, it seems they were unduly concerned.

Like other recent immigrants, robots have been relegated mostly to the least desirable tasks. Many are popping up in low-level service jobs. Transitions Research Corp. has developed a robot that delivers meal trays to hospital patients. "Nursing homes and hospitals just can't get the human staff they need 24 hours a day," says John Evans, the machines' designer. Other robots can flip hamburgers, serve as security guards, and clean office buildings.

Meanwhile, factory computers have made many human jobs more interesting. Blue-collar workers are not so much being displaced as promoted into "gold collar" jobs. They perform fewer routine functions and spend more time analyzing and responding to the wealth of data generated by the computers.

At General Electric's plant in Salisbury, North Carolina, for example, highly trained workers control automated machines. Their attitudes and abilities more closely resemble those of mid-level supervisors than of blue-collar workers, and management has found it can cut bureaucracy by allowing them to order new parts and schedule their hours—decisions that previously were made by supervisors.

And at one of the Weyerhauser Company's factories, more than 1,000 workers have access to a video screen that displays information about the plant's production—the same information the plant manager uses. Nowadays, workers as well as managers can get the "big picture" of their company's strengths and weaknesses, and that has improved both productivity and morale.

—Craig M. Collins

Renovating Freedom House

Which country enjoys more *economic* freedom: a dictatorship that imposes a 20 percent income tax on its subjects, or a democracy with a 70 percent tax?

RICE COUNCIL FOR MARKET DEVELOPMENT

TRENDS

The heavily taxed democracy, the best known annual survey of economic freedom might say. Freedom House, which issues a widely respected annual study of political freedom and civil liberties around the world, has since 1982 also reported on economic freedom. But many scholars say its economic survey is incomplete and is based on the faulty assumption that majority rule, a crucial factor of political freedom, is part of economic freedom, as well—that it's all right to vote away individuals' economic liberty. (The Freedom House ranking puts Sweden, for example, ahead of South Korea and Taiwan in granting citizens economic freedom.)

A group of individualist scholars recently met in Vancouver to examine the Freedom House rating and try to develop alternatives. Milton and Rose Friedman of the Hoover Institution, Charles Murray of the Manhattan Institute, Robert Poole of the Reason Foundation, and others discussed how to define and rate economic freedom. Their goal: to eventually come up with a more accurate rating system for Freedom House to use.

Unanimity was rare. Many participants argued for a narrow focus on a few simple measures—tax rates or the size of government. Others advocated a broader, more integrated philosophy of property rights and free markets to undergird the ratings. Much work remains to be done before a suitable rating system is complete. But all agreed that scholars around the world should dedicate as much attention to economic freedom as to political freedom—and that the first step is to know the difference between the two.

—John Hood

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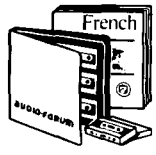

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RENT CONTROL

IT'S A ROTTEN LIFE

AND THE LOSS OF CIVILITY

BY WILLIAM TUCKER

New Yorkers have rent control in their blood. Recently, the *Daily News* referred to something as being "as much a part of New Yorkers as eggcreams, Coney Island, and rent control." Consequently, you can't tell New Yorkers that there is a world out there where apartments can be found by reading the newspaper or hunting "for rent" signs in the window. They all know such things don't exist.

For 45 years now, New Yorkers have had rent control. As a result, the city's vacancy rate stands at 2.5 percent—as opposed to 8.5 percent nationally. About 50,000 homeless people walk the streets, sleeping on sidewalks and subway grates, filling Grand Central Station. New Yorkers—even those who can't find apartments themselves—feel this is all the fault of landlords and clamor for more rent controls.

PHOTOGRAPHS BY BUZZ FREITAG

Six months ago on the "Morton Downey, Jr. Show," I bet anyone in New York $1,000 that they could go to Chicago and find an apartment within 48 hours. So far nobody has taken me up on it. That's because New Yorkers already know it's not possible. Apartments are things that you inherit from deceased relatives or get by paying $5,000 bribes to strangers or friends.

Still, this unfamiliarity with the real world is only half the story. I would bet that even if New Yorkers could be convinced that a free market would make apartments reasonably cheap and plentiful, most people still wouldn't accept the bargain. After all, what would be the challenge of living in New York if apartments were easy to find? How would we separate those *arrivistes* from the Midwest paying $2,000 a month for one-bedroom flats from second- and third-generation "old-wealth" tenants still paying only $800 for luxury seven-room apartments?

How much below market you pay for your apartment in New York is the principal measure of how long you've been around and how much you're "in the know." Mayor Koch himself pays only $351.64 for his rent-controlled apartment in Greenwich Village. State assemblyman Alexander "Pete" Grannis, chairman of the housing committee and an outspoken advocate of rent control, pays $771.72 for a large four-room apartment on the Upper East Side. State senator Marty Conner pays $469.59 for three bedrooms in affluent Brooklyn Heights. Rent control's "best deals" are still clustered in the most affluent areas of Manhattan—Greenwich Village and the Upper East and West sides.

By contrast, I know a recent college graduate who has spent two years paying $200 a month to sleep on a friend's couch while trying to find her own place. I know another college graduate who is paying $300 to live in a pantry and considers himself lucky. As one defeated apartment hunter told the *New York Times* recently: "I knew it was going to be difficult, but I didn't realize it would be impossible."

Still, if you hang in there for a few years—sleep on couches, sublet from friends—you may eventually hit the jackpot. For example, I know another woman in her 30s who lucked into a rent-stabilized apartment six years ago in a gentrifying neighborhood. It wasn't such a great deal—only $100 below market—but it is now $300 below market and the tenant upstairs just sold her lease for $11,000 (illegal, of course, but who cares?). For her and many others, living with rent control is a long-term investment that can eventually pay off handsomely.

As a result, trying to discourage people about rent control is like trying to dissuade them from playing the lottery. How can you say they're throwing their money away when there's a new $50,000 winner every week?

That's the way it seems at first blush, at least. But underneath this roulette wheel lies the slow, inexorable decay of a city under rent control. Landlords are, after all, the custodians of a city's most precious resource—its building stock. They must preserve and renew this infrastructure, using their own money. When a regulatory system discourages or prevents them from doing this, both the quantity and the quality of a city's real estate inevitably decline.

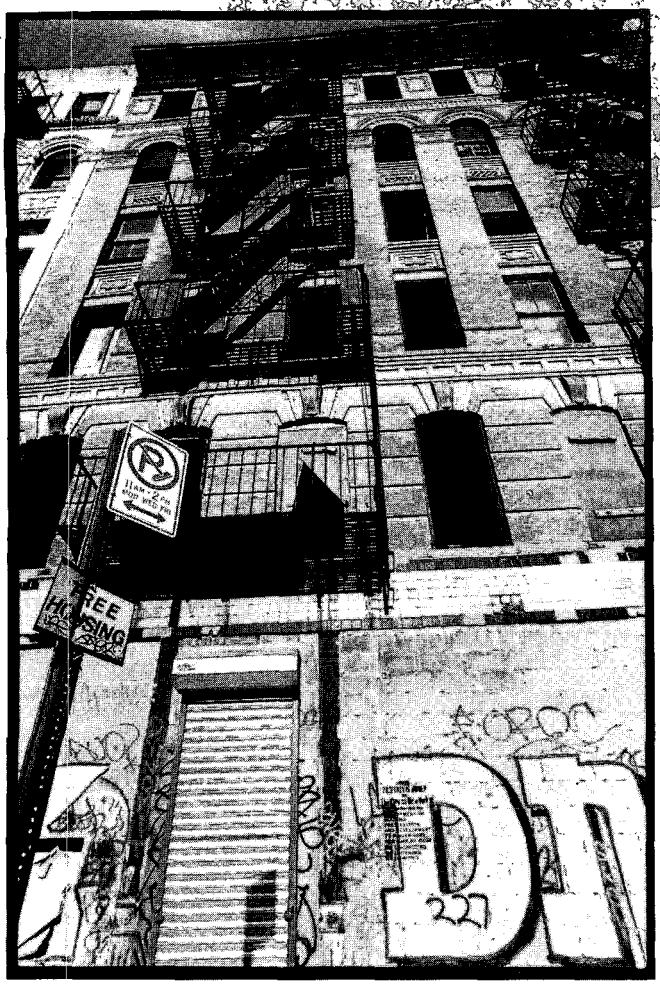
But that's not all. What is little recognized is that landlords also play a very crucial role in maintaining a city's civility. Landlords are informal policemen who uphold standards of behavior and resolve disputes between tenants and their neighbors. Their major responsibility is to make the majority of their tenants happy. When they are tied up in regulations, however, the quality of life begins to decay as well.

One old-time New York landlord sums it up in a recollection from the 1930s. "I remember going out one morning," he said, "and seeing a policeman who lived on my block with his things all packed on the sidewalk. 'What happened?' I asked him. 'Oh, I got a little drunk and acted up last Saturday and my landlord threw me out.' Of course back in those days it was no trouble to find a new apartment. People used to move every year just because there was a law saying the new landlord had to give you a paint job. The guy probably had another apartment that afternoon. But at least landlords had control over their tenants in those days. It was easier to keep bad people from getting out of hand."

It doesn't work that way any more. The deterioration of social behavior is just one more unanticipated outcome of a regulated housing market. Rent control is eating away at New York's social fabric in other ways, as well.

Three years ago, *Inc.* magazine published an article ranking New York "one of the worst big American cities for starting a small retail or manufacturing business." This year, *Inc.* ranked New York 79th among small-business centers,

Rent control is eating away at New York's social fabric, as well as its housing stock.



Tenants groups' dictum that "housing should be a free good" is taken literally by a growing tide of teenage suburban migrants.

after such hotspots as Jackson, Mississippi, and Toledo, Ohio.

A big reason: "escalating commercial rents," concluded Joel Kotkin, author of the 1986 report. Unfortunately, Kotkin, like so many others, proposes *commercial* rent control as a solution. The proposition has long been before the New York city council but has stalled because Mayor Edward Koch—in a fit of sanity—has opposed it.

Why should commercial rents be so high in New York? The major reason once again turns out to be rent control. Housing regulations have led to the abandonment of 50,000 buildings over the past 15 years. Countless numbers of these were what tax assessors used to call "taxpayers"—multistory apartment houses with commercial stores at street level. When low residential rents drove these buildings into bankruptcy, the commercial space went, too.

Residential rent controls also force landlords to squeeze every last dollar out of their commercial tenants. Under normal circumstances, landlords are "turnover minimizers rather than profit maximizers," observes Anthony Downs of the Brookings Institution, one of the nation's chief real estate experts. Once they get good tenants they tend to keep them rather than risk newcomers at higher rents.

Rent control deprives landlords of this luxury. Forced to lose money on their residential units, landlords must gamble wildly in trying to land that one big high-paying commercial tenant. Thus, even in the midst of a rising market, landlords have kept prime stores empty for years, waiting for a tenant who will pay ultra-high rents.

On the other hand, you might actually expect residential rent regulations to *increase* the supply of commercial spaces. This is because landlords should be anxious to convert some apartments to commercial use in order to get them out of rent control. In fact, there are now thousands and thousands of second-floor apartments in Manhattan that would work very well as stores or offices. The Mayor's Study Commission on Small Retail Business—set up to consider commercial rent control—called the conversion of second-floor spaces the most promising strategy for increasing the supply of stores and offices and lowering commercial rents.

Yet it can't be done. City officials are so acutely aware of landlords' desire to escape rent control that they fight conversions at every turn.

Let me give you an example. James Lioi owns a six-unit apartment building on Waverly Place in Greenwich Village. One of his tenants, supermodel Lauren Hutton, pays only $450 for a mahogany-festooned, rent-controlled artist's chalet in the back yard that is probably worth $1,800. (Hutton and her husband, the lease-holding tenant, also have another rent-controlled apartment in the neighborhood, plus a home in California and a 30-acre property on Long Island.)

In 1985, Lioi rented an unused, below-grade apartment in the front of the building to Josef Palterman, a Russian immigrant, who wanted to open a dry cleaners. The building department gave him a permit. Palterman spent $17,000—his life savings—to furnish the shop. Two months after it opened, building department officials came around and told him he would have to close it. They had made a mistake: the apartment wasn't zoned for commercial use after all.

Lioi went to court and showed that the space had been a Mexican restaurant in the 1950s and had long been used as a commercial space. He also discovered that the crusade against the shop was being led by a second-floor tenant who has a very cheap rent-stabilized apartment. Rent stabilization only applies to buildings with six or more units, and the tenant apparently feared Lioi's conversion of the basement apartment was the beginning of an attempt to take the building out from under rent regulations.

Lioi hadn't considered this possibility. He also quickly found that the law doesn't allow a landlord to remove his building from rent stabilization by converting apartments to commercial use—something the city attorneys themselves didn't know. Nevertheless, the tenant continued her campaign, rousing neighborhood opposition to "the shop on Waverly Street." Palterman, caught in the middle, said he wished he'd never left the Soviet Union.

The story of a Soviet refugee about to lose his life savings made the papers, and soon Palterman was being represented by none other than William Kunstler. Still, the city forged ahead. When I asked Gary Shaffer, the corporation counsel, whence the city's zeal, he replied: "We have a real housing shortage in this city because landlords are constantly converting residences to commercial space to collect more rent. In order to protect the tenants, we have to stop them." He said he was hoping to turn Lioi and Palterman against each other, so that Lioi would be forced to reimburse Palterman his $17,000.

Not until public sentiment came down firmly on Palterman's side—and Lioi had spent $20,000 in legal fees—did the city

finally drop the suit. "What seemed to infuriate them [the officials] most was finding a landlord and a tenant on the same side of the issue," said Lioi. "It was like forcing a group of racists to consent to a mixed marriage."

So it goes in case after case. Rent control has not only wrecked the housing market but has driven up prices of commercial space as well. As usual, the solution to the problems of government regulation is more government regulation. What starts as a deceptively simple effort to "control prices" ends as massive government micromanagement of the whole real estate market.

Rent control also encourages the drug trade. Restrictions on police searches being what they are, it is certainly easy enough to carry on a streetcorner drug business. But it is much safer to set up a "crack house." Dealing with large sums of money usually leaves sidewalk drug merchants open to robbery and worse. Many drug dens, on the other hand, feature a heavily reinforced door with only a small slot where the buyer can insert his money and hope his drugs appear.

Landlords are terrified of having drug dealers gain a foothold in their apartments. "You can lose a whole building overnight," says Aeolus Green, a small Harlem landlord who fought off a drug invasion a few years ago. "The buyers start coming at all hours of the night, they keep the tenants awake, threaten them in the halls. The first time I found drug dealers in my building I went down there and ran them out with a baseball bat."

Unfortunately, any New York landlord who tries to keep dealers out of his building will quickly find himself running afoul of that city's strict eviction laws. Contrary to the workings of the normal housing market, rent control gives a landlord an incentive to *get rid of* tenants. Rent-control ordinances always include "vacancy allowances," which permit the landlord to charge any new tenant a higher legal rent than an existing tenant. (New York landlords have been known to hire anyone from rock bands to professional thugs to drive tenants out of low-rent apartments.)

Consequently, it becomes necessary to pass elaborate anti-eviction laws. But this only produces a new round of consequences. Although the laws protect good tenants, they also protect bad ones. Now the guy on the third floor can blast his stereo all night with the supreme confidence that nobody can do a thing about it.

In the end, drug dealers have emerged as perhaps the principal beneficiaries of New York's anti-eviction laws. The Rev. Dale Hanson, an activist pastor at St. Luke's Lutheran Church in Hell's Kitchen, has a crack den/whorehouse right next to his West 46th Street church. "Six months ago the landlord tried to empty the building," he recalls. "Within two weeks the city housing department was in court defending the drug dealers. I think the housing department does more to protect the drug trade in my neighborhood that the drug dealers do for themselves."

Jacqueline Abrams and her husband, Charles, own three buildings on Manhattan's Upper West Side. A few years ago, a tenant asked if he could rent a hall closet to store some wines. They consented. Several months later, two strange men showed up at the Abramses' door with guns drawn. They turned out to be FBI agents. The tenant, it seemed, was a fugitive in several states and had just been arrested in Minnesota on another drug charge. The FBI figured the Abramses were part of the operation, since the tenant's drugs were stored in their closet.

After finally convincing the FBI that the drugs belonged to the tenant, the Abramses went to housing court to have the tenant evicted. By the time the case finally came before a judge, they hadn't heard from him in six months. Nevertheless, on the day of the trial he finally appeared, wearing a trenchcoat in 95-degree weather. He was out on bail again and still wanted the apartment—even though he would be sentenced the next day.

"The judge asked us why we wanted him out of the apartment," recalls Mrs. Abrams. "We said, 'He hasn't paid rent

When James Lioi (right) rented an unused apartment to Josef Palterman (left) for a dry cleaners, another tenant sicced the authorities on them.

in six months.' The judge said to us, 'How can you expect this man to pay rent? He's been incarcerated all this time.' " Instead, the judge told the Abramses and the tenant to "step out into the corridor and discuss the matter"—a euphemism for settling on the bribe that landlords almost always have to pay tenants to vacate regulated apartments. "When we got outside we told him we weren't paying him anything. He pulled back his raincoat and showed us a sawed-off shotgun holstered into his raincoat. His lawyer was standing right there. He said he wanted $25,000. We finally gave him $5,000. I wrote the check right there. All this happened right in the corridor of the housing court, with his lawyer standing right there."

Abrams says the experience, plus many others like it, has finally made her and her husband decide to get out of the housing business. "It's a nightmare," she says. "I could go to Russia and be treated better than this. Who needs it?"

Under such circumstances, it wasn't surprising last June when Manhattan District Attorney Robert Morgenthau announced that "landlords who refuse to evict drug dealers" are the biggest single problem in stemming New York's drug tide. Typically, Morgenthau announced that he would solve the problem by imposing huge fines on landlords. What Morgenthau did not yet realize is that the city's housing bureaucracy—the whole rent control system—is the origin of the problem.

The situation is so bad that the city government itself has now become New York's most active drug landlord. The Department of Housing Preservation and Development (HPD) owns 30,000 apartment units taken from landlords forced out by rent controls. HPD is so gingerly about breaking its own eviction laws that, as Catie Marshall, spokeswoman for HPD, put it, "We don't evict anyone unless we catch them dealing drugs and convict them twice in the same year."

Not surprisingly, of the 11 buildings targeted for immediate action by District Attorney Morgenthau, 7 were owned by the city itself. In one notorious drug haven on West 89th Street—the subject of a cover story in *New York* magazine—HPD has spent $250,000 on armed guards over the last three years to keep order around two large drug operations.

In another building just a few blocks away, Nikki Oritz, a 41-year-old tenant who had tried to drive drug dealers from her city-owned building, was shot dead as she swept the front hallway. The two murderers said later they were paid $300 to do the job. That's about right for New York. The word on the street is that the reward is $600 for killing a landlord or superintendent who tries to evict or interfere with drug dealers.

Perhaps the final thing to go under rent control is something that might be called the "quality of life." You can see this best on the Lower East Side, an area where the concept of private ownership has almost completely broken down.

The Lower East Side has been host to a whole succession of immigrants, from Ukrainian and Latvian refugees to the Puerto Ricans and hippy migrants of the '60s. The area's numerous public housing projects dominate its politics, and Miriam Friedlander, the 70-year-old former Communist Party member who represents the district on the city council, has vowed that no more city-owned buildings in her district will fall into private hands.

In the 1970s, the city government began a program that made it possible for neighborhood organizations to take over buildings from their private owners. Since that time dozens of "neighborhood preservation companies" (NPCs) have sprung up—all operating with generous helpings of state, federal, and city funds. They organize rent strikes, drive off the landlords, and then manage the buildings themselves, collecting rents and providing apartments for their members and associates. One of the most successful NPCs—Good Old Lower East Side (GOLES)—has seized control of over 20 buildings.

Neighborhood preservation companies have become so successful that rival organizations have divided the Lower East Side into zones to avoid stepping on each other's toes. Half-abandoned structures all over the Lower East Side are strung with banners proclaiming ownership ("This Building Belongs To The People—GOLES"), while warning off other predators.

In this atmosphere of house-to-house warfare, squatting in half-empty buildings—both private and city-owned—has become rampant. Tenant groups' dictum that "housing should be a free good" is taken literally by a growing tide of teenage suburban migrants. Their focal point has become Tompkins Square, a 10-acre patch of greenery where "skinheads" and other social outcasts congregate. Joining an already large battalion of the homeless (themselves victims of rent control), they turned Tompkins Square Park into a squalid, 24-hour party.

Doing drugs and playing loud radios, the denizens of Tompkins Square eventually exhausted the patience of neighboring citizens. One night last August the police were asked to clear the park. A riot ensued and the police, predictably, got the blame. Since then, the city has been going through a series of '60s-style self-flagellations.

Meanwhile, a free-floating army of squatters and skinheads has set up permanent vigil outside The Christadora, a former city warehouse recently renovated into condominiums after being empty for years. Shouting "Death to Yuppie Scum" and "Go Back to Westchester," the activists—many of whom recently migrated from Westchester—are trying to drive the homeowners out of "their neighborhood." The newspapers call it "class warfare" and fret about the "growing polarization between rich and poor." But the real confrontation is between those who believe in paying for housing and those who don't. In an environment where political gamesmanship and legalized racketeering have replaced the normal processes of exchange, taxpaying homeowners themselves ultimately become the "enemies of the people."

So that's what life is like under rent control. Some people probably think it couldn't happen to a nicer city. But they shouldn't feel too comfortable about it. Since 1970, almost every major city on the East and West coasts—Boston, Washington, Newark, San Francisco, Oakland, and Los Angeles—has adopted rent control. Berkeley and Santa Monica have ordinances so draconic that in less than a decade they have driven vacancies nearly down to zero.

Altogether, 200 municipalities around the country now have rent control, and others are toying with the idea all the time. It may not be long before this whole circus visits your town, as well. r

Contributing Editor William Tucker is writing a book about housing and homelessness.

OVER AND OUT

The Drama Behind Airline Deregulation

BY PETER SAMUEL

The airline revolution is often portrayed as the handiwork of that unlikely Democratic Party duo—the left-liberal Senator Ted Kennedy and the market-oriented academic economist Alfred Kahn. Kennedy, more usually associated with schemes to expand the power of government, sponsored the legislation that finalized deregulation of the airlines and abolished the regulating agency, the Civil Aeronautics Board (CAB). Kahn, flamboyant, candid, and very persuasive as chairman of the CAB, was an enthusiastic and forceful deregulating agency chief.

But deregulation was far from simply a Democratic scheme, as suggested by the focus on Kennedy as reformist legislator and Kahn as the boss-cum-gravedigger of the CAB. Some infrequently lauded Republicans—notably Kahn's predecessor as CAB chairman, John E. Robson, President Ford's Secretary of Transportation William T. Coleman, and Ford himself—deserve perhaps half the credit for deregulation. Perversely, some credit must also go to a bunch of proregulation GOP administrators at the CAB who inadvertently managed to discredit the regulatory system in the early '70s with the zeal of their industry-protectionist policies.

A great deal of the impetus for deregulation came from the gradual professional ascendancy of economists over lawyers in the policy branches of government agencies—particularly the Department of Transporation. Lawyers, with their predisposition toward an arbitrated solution, are still the dominant professional species in Washington, but the 1960s and '70s saw large numbers of economists recruited to many different agencies. Many of these people delighted in demonstrating the irrationality and heavy costs of regulation and in outlining the advantages of harnessing the free market.

In doing so, they could tap a well-developed body of research demonstrating the inefficiency of airline regulation. The CAB system, economists noted, propped up financially weak carriers by giving them preference in route awards and fare approvals. It rarely permitted new routes and wouldn't allow airlines to transfer the routes it did grant. The system bred a cost-plus pricing mentality and invited management indulgence of labor unions. It stifled innovation, prevented new route offerings, and forbade discount fares.

Until the early '70s, however, economists were usually dismissed as "ivory tower theorists" who knew nothing about the realities of running an airline. But then theory met reality—and deregulation became a political possibility.

For the first 30 years of its life, the CAB stayed uncontroversial by letting in just enough new service to deter complaints from thwarted entrepreneurs and consumers, while quietly and discreetly looking after the entrenched airlines. The CAB saw itself as an industry stabilizer, keeping tight control on the number of flights and boosting fares in economic hard times but loosening its regulatory grip in times of prosperity to prevent super-profits.

But around the end of the 1960s, an unusual conjuncture of events put financial pressure on the industry. The airlines found they had over-ordered the new generation of widebody planes—747s and DC-10s—that Boeing and Douglas were rolling out of their plants for the first time. And there was a recession. Instead of letting the airlines live with the consequences of their overinvestment in the fancy new jumbos and the economic downturn, Nanny CAB fussed over the airlines as if they were all in mortal danger.

Chairman Secor Brown in effect implemented a "route moratorium" by refusing even to hold hearings on applications for permits for new flight routes. Beginning in 1969, the CAB openly urged competing airlines to form cartels in order to reduce capacity further. It cut the number of flights allowed on four major transcontinental routes.

Fares soared. And once the economy revived and the airlines filled their overcapacity, the CAB still failed to relax its regula-

BETTMAN ARCHIVES

President Carter signs the bill deregulating the airlines. A "killer amendment," introduced by proregulation Rep. Elliott Levitas, slipped through and wound up eliminating the Civil Aeronautics Board, the first time in the history of federal regulation a major agency was simply abolished by law.

tory grip. A new CAB chairman, Robert Timm, tried to make the route moratorium permanent. By 1973, petroleum prices were rising rapidly because of the Arab oil embargo. The Timm board used fuel conservation as justification for even further reductions in capacity and approved major increases in fares. In an apparent attempt to bolster the finances of troubled TWA and Pan Am, the CAB also proposed tougher restrictions on charter flights. Timm so openly espoused the industry line that airline executives regarded him as the "best thing that happened since the invention of the jet engine," according to a 1973 *New York Times* article.

But Timm set himself up to be discredited. In August 1974 the *Washington Star* reported that he had engaged in an expenses-paid frolic in the Bahamas with executives of several airlines and an aircraft manufacturer. Congress and the media bitterly denounced Timm and his CAB as corrupt. His Bahamas scandal became a symbol of the agency's capture by the industry and its betrayal of the public trust. When Timm's term expired in 1975, President Ford appointed the deregulation-minded lawyer John Robson to replace him.

Before that transition, however, Ford had encouraged staff at the White House and the Department of Transportation to move toward deregulation. Ford always had a bit of the populist in his political makeup, being quite cynical about organized lobby groups. He also was something of a Reaganite about the evils of overlarge and overintrusive government, and he found that this theme went over well in his speeches.

Encouraged by the positive political feedback, he told his staff to put some content into his smaller-government policy. To come up with specific proposals, he appointed a deregulatory staff group of senior people from the Office of Management and Budget and various cabinet departments. Cumbrously titled the Domestic Council Review Group on Regulatory Reform (DCRG), the group met at the White House twice a week from the summer of 1974 into 1976. Economists—antiregulators—dominated it.

Its leading lights, economists Paul MacAvoy and Edward Schmults, pushed a broad deregulatory agenda, encompassing everything from cost impact statements on all new laws and regulations to an end to the postal monopoly and minimum-wage laws. Transportation Secretary Coleman cooperated more closely with the DCRG than other agency heads did, and he and his staff produced bills proposing major cutbacks in the regulatory powers of both the CAB and the Interstate Commerce Commission.

So the stage was set for major changes when Robson took over as CAB chairman in April 1975. After only a couple of months, he developed into a strong believer in deregulation. "The Board's judicial process and trappings [were] a Hollywood set for the preservation of the belief that the regulatory process was scientific, fair and equitable and done according to law," he later wrote. "But the decisions were in fact arbitrary....It was just nutty."

Robson was determined to subvert the CAB but to do it in a quiet, methodical way—to avoid polarization and an overt push for deregulation before it could succeed. "My plan," he explained after his retirement, "was to use staff resources...to create momentum for deregulation within the agency, to attack the other board members from within."

Robson's predecesssor Timm had already started to create that momentum. As one of his last acts, Timm had established a task force of CAB staff members to "explore afresh all the areas into which our regulation reaches and determine without preconception or prejudice whether deregulation, or the regulatory status quo, would be in the best interests of the consumer and the industry."

Roy Pulsifer, a leading internal maverick, led the group. A lawyer by training, Pulsifer had "found" economics and had become an ascerbic critic of CAB procedures. Pulsifer was an avid reader, knew the economics literature on airline regulation backwards, and had become a zealous economic libertarian. He had a picture of Milton Friedman on his desk at the CAB.

To underline its desire for thoroughgoing self-criticism, the CAB let Pulsifer select the other four members of his task force. For his deputy, Pulsifer picked Lucile Keyes, who in a 1951 book had launched one of the earliest economic attacks on airline regulation. Pulsifer's group worked for six months—Timm's last four months and Robson's first two.

The Pulsifer group's report drove a spear into the heart of the CAB. It bluntly declared that "protective entry control, exit control and public utility type price regulation...are not justified by the underlying cost and demand characteristics of commercial air transportation....The present system of regulation causes higher than necessary costs and prices (which in turn suppress demand), weakens the ability of carriers to respond to market demand and other constantly changing conditions, narrows the range of price/quality choice to the user, and thus produces a misallocation of the nation's economic resources." It proposed a three- to five-year phaseout of CAB activities by legislation.

Robson took his time to make public his own position. He first assembled a broader CAB staff task force to review the Pulsifer report and assigned a committee of CAB bureau directors to assess regulation. Both substantially endorsed the deregulation approach.

Eventually, Robson's slow campaign brought around long-time supporters of regulation on the five-member board. They unanimously endorsed deregulation as CAB policy. That endorsement, the chairman later said, "resulted from an amalgam of persuasion, loyalty to the chairman, fear of political retribution, institutional pride that sought to restore the CAB to a leadership role, the tactic of ensuring that pressure came from the indigenous professional staff, and a belief by some members that even if the CAB recommended deregulation, Congress and the airlines would never let it happen."

When Robson announced the unanimous deregulation recommendation to Congress, reporters described it as a bombshell. The CAB's decision proved decisive in removing the last major roadblock to deregulation—opposition by Sen. Howard Cannon, chairman of the subcommittee on aviation and hitherto a regulationist and rival of Kennedy's.

Cannon had long indulged in anti-intellectual name calling to the effect that deregulation was "impractical" and "ivory tower theorizing." But he had relied on the CAB as the source of common sense. Witnesses at the hearings said that Cannon's jaw dropped when Robson announced that the CAB was unanimous in favor of deregulation of the airline industry. From then on, he supported Senator Kennedy and by 1976 they cosponsored a deregulation bill.

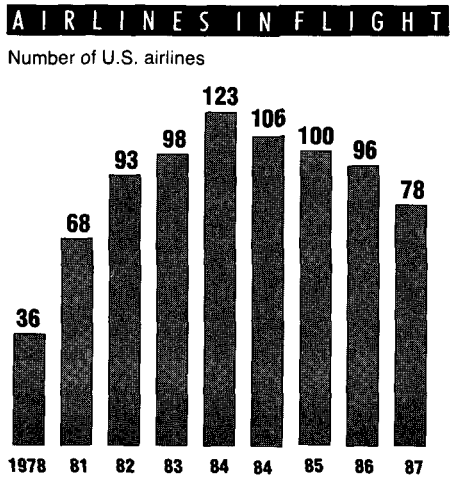
Robson says of his term as chairman: "We had taken a government agency that had regulated airlines for 40 years and turned it 180 degrees to a policy of deregulation." Under Robson, the agency liberalized charter operations and authorized SuperSaver fares and other discounts, giving deregulation something of a trial run. So when Alfred Kahn became chairman under Jimmy Carter, he inherited a basically deregulationist CAB.

For his part, Kennedy first moved toward deregulation on the advice of Stephen Breyer, a Harvard lawyer who had collaborated with economist Paul MacAvoy on a book supporting reduced controls over natural gas. Joining the staff of the subcommittee on administrative practice and procedure early in 1974, Breyer urged Kennedy to conduct hearings on airline regulation as the first of what he hoped would be a whole series of inquiries into controls over industry. He chose airlines because he felt the case for reform was most heavily developed.

Kennedy wasn't enthusiastic at first, but he soon realized that deregulation could prove a good pro-consumer issue in his 1976 campaign for president. Breyer swung into a major program to produce telling and newsworthy witnesses for hearings that opened in February 1975. Kennedy prepared himself well, making strong, clear statements and subjecting witnesses to effective cross-examination. The hearings attracted enormous attention, making airline deregulation a national issue. Kennedy came out of the hearings a Senate leader and was able to claim in his campaign for the 1976 nomination that he was the "father of deregulation."

The Kennedy hearings highlighted a real-world example of competition: the purely intrastate airlines of California and Texas, which had developed free of federal regulation. In 1974, Pacific Southwest Airlines offered Los Angeles–San Francisco fares of $19—compared to the $41 charged on the regulated, but otherwise comparable, Baltimore-Washington run. Similarly, intrastate and unregulated Southwest offered $15 off-peak and $25 peak fares between Dallas and Houston; CAB-regulated interstate airlines charged 28 percent more on the same route. Advocates of deregulation could argue an impeccable logical case against regulation, but for noneconomists those Texas and California fares were often far more eloquent persuasion.

Deregulation unleashed a wave of airline startups.



Source: Airline Economics, Inc.

Also, in the middle of the four-year struggle for deregulation, airline industry resistance began to break up. Late in 1975, United, the largest carrier, said it "would welcome total deregulation." This announcement immobilized the industry lobby, the Air Transport Association. United's move was influenced partly by its long-simmering resentment at the CAB's never ever giving it the new route authority it asked for. In addition, some of United's senior executives came from the intensely competitive and unregulated hotel business and may have felt confined by the sheltered workshop environment they found in aviation.

The Carter White House, too, played some hardball politics with the airlines. United suddenly seemed to get better treatment in overseas route allocations after it had made its dramatic announcement. A Western Airlines spokesman said bluntly that his airline followed United in endorsing deregulation because President Carter was treating United better: "During the legislative process, we realized we were paying too heavy a price in being opposed to it. Our route awards dried up, so we changed sides."

The funniest aspect of airline deregulation was the way the law came to include a "sunset" clause mandating elimination of the CAB after seven years. It was inserted by pro-regulation Rep. Elliott Levitas (D-Ga.), who hoped to build opposition by making the deregulation bill more extreme. He figured Congress would never vote for abolition of the agency and that this would be a "killer amendment." Kahn opposed the sunset clause at the time on just these grounds. But it was never thoroughly debated, since most lawmakers believed that such an extreme clause would be dropped in conference. Somehow, apparently by accident, the sunset provision never got axed, and so for the first time in the history of federal regulation a major agency was simply abolished by law.

To be sure, no such victory is ever complete and final, for as George Shultz said in another context about Washington politics, nothing is ever settled in this city. Every issue gets fought over and over. In air transport there are still battles to be fought (perhaps at the state and municipal level principally) to get the supply of airport capacity freed up so the airports can respond to the greater flow of aircraft and passengers that deregulation has brought. And there are issues of air traffic control still unaddressed by the feds.

But having seen how a small bunch of persistent economists, some honorable public servants, and several otherwise rather ordinary politicians were able to transform an industry—against the opposition of all the established airline companies—in just four short years, it seems a little less hopeless to think that we might one day be able to privatize and deregulate the mails, abolish farm subsidies, and have competitive unsubsidized transit.

Above all, airline deregulation is a good-news story for idea-mongers and idealists, the people who devote themselves to the good old "public weal" and who really get steamed up about the unnecessary bureaucracy, inefficiency, and downright stupidity of a regulatory regime. For, here, they won one. [r]

Contributing Editor Peter Samuel is a Washington journalist. He has written for REASON on deregulation of transit and telecommunications in the United States and, most recently, on the New Zealand Labour experiment in economic reform (March 1987).

SUPER SAVER

$100 Billion and a Whole Lot of Time

BY LAWRENCE PERSON

Back in the late '60s and early '70s, Fred Ebner traveled to Europe in his job as a textbook publisher's representative. But after retiring for health reasons, he couldn't afford to vacation in Europe on his own. Airline tickets were just too expensive.

"Being a retiree on a limited income, it was just not possible for me to travel the way I wanted to," he recalls. "But when they deregulated the airlines it made it possible for me to travel again by bringing about a drop of several hundred dollars in the trans-Atlantic fare." Ten years after deregulation, Ebner still finds rates on the North Atlantic route some 30-60 percent less than they were in the early '70s—even without accounting for inflation.

Ebner is only one of millions of consumers for whom deregulation has opened up new opportunities for air travel. U.S. airlines carried 447 million passengers in 1987, up from 240 million a decade earlier—an increase almost the size of the entire population of the United States. In a February 1988 report, the Federal Trade Commission estimated that airline deregulation has saved consumers more than *$100 billion* in lower fares since its inception. The annual savings totals $10-12 billion.

But deregulation has done more than simply save money. It has changed the way Americans think about flying. No longer are airplanes off-limits to all but the business traveler and the wealthy tourist. Like long-distance phone calls or VCRs, flying is a former luxury most consumers take for granted. "It's affordable now for students, for families, retired people—different groups are able to travel now by air, where before it was the bus or the train," notes Liz Venable, a travel agent at Bon Voyage Travel in Austin, Texas.

Airline deregulation has knit families together, encouraged long-distance romances, and popularized the four-day Hawaiian vacation. When airlines hike their prices before Thanksgiving, it makes the evening news—precisely because nearly everyone nowadays can at least contemplate buying an airline ticket. And if airline jokes have become fodder for most comic routines, that, too, is because the audience is flying.

Matt Pinsonneault doesn't remember the days when the only way a college student could afford to fly was to spend hours hanging around airports in hopes of getting a standby seat. A computer science major at the University of Texas in Austin, he worked at a programming job in St. Louis last summer and flew back home to Houston frequently. Although the company he was working for paid for the flights, he found the round-trip prices—sometimes as low as $120—very reasonable, thanks to fierce competition. (And it's hard to imagine a company footing the bill for such a fringe benefit back in 1978, when a round-trip ticket—on a 45-day advance purchase—would have cost $292 in today's dollars.)

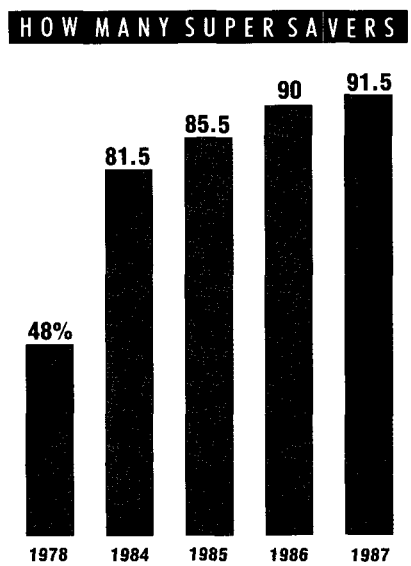
"The rates weren't bad, and flying is a hell of a lot faster" than other forms of transportation, notes Pinsonneault. "Getting to and from places [on the airlines] is pretty easy. Getting in and out of the airport is not so pleasant."

Indeed, airports seem to be the number-one complaint, especially among business travelers. "Airports haven't kept pace with flyers," notes Gary Battson, director of the import-export division of Hoechst-Celanese, a polyester film manufacturer in South Carolina. A frequent flyer, he says the huge increase in the number of travelers has degraded service: "Airlines today treat you as one of the herd."

While deregulation has undoubtedly overstressed airports, other travelers believe competition has made at least some airlines more likely to give good service. "Today, in some airports the people are friendly, some discourteous. In the old days, they were all somewhat indifferent," says Marlin Miller, a branch manager at Kranco Inc., a Houston heavy-equipment company. His colleague Ray Bauer, vice president of service, thinks competition has even improved airline food, which once resembled military grub.

By bringing air travel to the masses, airline deregulation has brought the masses to air travel. That means more crying babies and fewer empty center seats. But it also means more choice—and greater competitiveness for American business. Says Miller: "We do a lot of flying from Houston to Los Angeles, and the fares are nothing at all because of the competition. It used to be, whatever airline you took, you paid one price and it was high." The days of take it or leave it are gone. ◻

Lawrence Person is a contributing editor for Nova Express *magazine and was a runner-up in the Institute for Humane Studies' Felix Morley Memorial writing competition in 1987.*



The percentage of passengers using discount fares has nearly doubled.

Source: Airline Economics, Inc.

CLEAR THE RUNWAYS

Ending Congestion and Delays

BY JAMES L. GATTUSO

"Sure, air fares are lower. Sure, flights are more frequent. Sure, vast numbers of people now routinely hop on a plane to get where they're going. *But what about the delays?*"

Airline deregulation has become a victim of its own success. By opening up air travel to millions of Americans, it has strained the capacity of U.S. airports and airways. The results: delayed and cancelled flights, missed connections, overworked air traffic controllers, overcrowded airports, and angry travelers—some of whom blame deregulation for their troubles.

To resolve these problems, the United States could return to its old system of regulation. This would jack up prices and put an end to travel for the masses. While reregulation would reduce congestion, it would hardly improve the lot of consumers.

The alternative is to look at what airline deregulation didn't touch. The 1978 act did nothing to address other crucial components of the aviation system—including the airports and airways. These vital parts of the aviation infrastructure are owned and operated by government agencies, insulated from most market forces and private-sector incentives.

Airway and airport systems *can* be designed to better meet the needs of air travelers. As with the pre-1979 airline cartel, the trick is to increase market incentives and the role of the private sector so that operators will respond quickly to the needs of consumers.

A prime target for policymakers who want to help travelers is the air traffic control system. Currently, the system in the United States is almost completely owned and operated by the federal government, through the Federal Aviation Administration. Except for a handful of people at some very small airfields, controllers are FAA employees. The FAA also operates all "en route" control centers and virtually all airport towers. Federal taxes on passenger tickets and on aviation fuel provide most of the funding. Accordingly, all spending on air traffic control must be authorized and appropriated by Congress.

This structure has caused enormous problems, with difficulties most apparent in three main areas:

Personnel: Controllers are federal employees, and civil service rules limit the ability of managers to reassign them or alter their duties as needs arise. Moreover, civil service employees across the country have to be paid on a uniform nationwide scale, making it difficult to attract enough controllers in areas with a high cost of living, such as Chicago. The result: overworked controllers and increased friction between management and labor.

Procurement: The air traffic control system suffers from similar inflexibility in obtaining equipment, because of the federal government's elaborate procurement rules. It often takes the FAA years longer than the private sector to put new technology in place. For instance, parts of the FAA's "National Airspace System Plan," a 10-year project begun in 1983 to modernize the traffic control system, were already 4 years behind schedule by 1987. Secretary of Transportation James Burnley recently admitted that new computers and other systems are often "technological relics" by the time they are actually put in place.

Budget: Because Congress must approve all expenditures for air traffic control, political pressures often override the needs of users. Spending, for instance, can be directed to particular congressional districts or to areas of media attention, regardless of real need. Worse, managers of the system find it difficult to plan for the long term since they cannot predict when—or whether—Congress will appropriate funds.

Airports and airways—unlike airlines—are still insulated from market forces and private-sector incentives.

As part of the federal bureaucracy, the air traffic control system will always be hampered by administrative and bureaucratic restrictions that hinder its ability to serve travelers. Recognizing this, some policymakers, including the President's Aviation Safety Commission, recommend reorganizing the U.S. air traffic control system as an independent agency, free of federal personnel and procurement rules and funded directly by users.

Such a reorganization would improve the situation by taking the system out of the federal bureaucracy. Yet it would fall far short of what is needed. While an independent agency would have the *ability* to respond to the needs of air travelers, it would still lack the *incentive* to do so. Its managers would still be ultimately responsive to political authorities—the president and Congress—rather than to its users.

Anyone who doubts this should consider the record of the Postal Service since it was reorganized in the 1970s. As a government corporation, it was given even more independence from the federal bureaucracy than envisioned for the air traffic control system under this plan. Whether or not this improved the Postal Service, there is near-universal agreement that the system's quality and efficiency still fall short—so much so

that privatization of mail delivery has become a very live option.

If we really want to improve the ability of the air traffic control system to meet rising demand without sacrificing safety, the best alternative is to move directly to privatization. As envisioned by the Reason Foundation's Robert W. Poole, Jr., a long-time observer of the air traffic control system, the government could divest itself of these operations in two parts. The "en route" system could be operated by a user-owned cooperative made up of the airlines, private pilots, the military, and even air traffic controllers. It would be subject to safety regulation by the FAA but would otherwise be free to operate the system as it saw best. As system users, the coop's owners would have strong incentives to adopt improved technology, adjust employee pay and assignments to meet local conditions, and put money into the operations that need it most.

The Poole plan would also put the operation of local airport control towers—from which take-offs and landings are directed—in the hands of the airports. Because local tower operations represent a discrete and separate function from other aspects of traffic control, there is no reason for tower controllers to be employed by the same organization. Under this arrangement, airports could determine for themselves how best to operate their towers. In Great Britain, such a system has been in place since 1972, allowing individual airports to operate their own towers, hire private companies to do so, or contract with the national government for the service. Airports can choose operators who best meet their needs, while each operator—whether public or private—has a strong incentive to provide the best service possible.

As a second-best solution, if full privatization proves politically impossible, the national air traffic system could be kept under nominal federal ownership but controlled by a board substantially selected by the users. Local operations could still be devolved to the airports, as in Britain. Unlike the current system or a government corporation, this plan would offer managers a direct incentive to please users rather than politicians, although the federal government would still have a connection to the system.

Getting government out of the air traffic control business would not, however, end airport congestion. As deregulation has increased demand for flights, the old first-come, first-served way of doling out take-off and landing slots has completely broken down. But the "scheduling committees" that have taken its place divvy up slots based more on clout than on who actually values the slots the most. And airports still charge for runway use based on aircraft weight rather than supply and demand.

As a result, take-off and landing rights are misallocated. For instance, although airports, like phone companies and electric utilities, have certain "peak hours" when traffic is busiest, airlines and private pilots have few incentives to reduce congestion by flying at another time. A jet landing at an airport at 4:00 P.M. often pays the same fee as one landing at midnight. Moreover, weight-based fees have nothing to do with the economic value of the slot itself. Lightweight private planes may pay only $25 for landing at a busy airport, even when a jumbo jet carrying hundreds of passengers is thereby kept waiting.

Market principles can be used in several ways to allocate these rights more sensibly. Most simply, airports could charge fees that vary according to the demand for taking off and landing at particular times. To better manage the flow of traffic, an airport could charge more to depart at 5:00 P.M. than at 11:00 P.M.. Since such charges would be reflected in ticket prices, travelers would then have an incentive not to fly at peak times unless the value of doing so matched the higher price.

Alternatively, airports could auction specific take-off and landing slots, allowing users to bid for rights at a particular time. In this way, the slots available at each airport would be distributed according to how highly users valued them. If United expects its 5:00 flights into O'Hare to be full, and Continental can sell only half its seats, it's not hard to guess which would bid more for a 5:00 slot.

One last reform that policymakers need to explore is moving airports into the private sector. Currently, all the major airports in this country are owned by one or another unit of government—typically by local airport authorities. While most of these airports are self-financing and fairly well run, like other governmental entities they may have less incentive than private firms to serve their users and may be more lethargic about adjusting to changing conditions. As the need for new and expanded airport capacity grows, this will become more of a problem.

In Great Britain, most major airports are already privately owned, including London's Heathrow and Gatwick airports. Privatization, of course, cannot solve all of airports' problems. Regardless of who owns an airport, it may face such obstacles to airport expansion as noise and zoning regulations. But even here the profit motive can serve well, by inducing airport operators to find ways to overcome these problems by boosting efficiency.

All of these changes would help extend the successes of airline deregulation. Everyone agrees that it has chalked up successes; few deny that it has also brought problems in its wake. But the answer is to go all the way with air travel deregulation, not to pull back. Today's problems can be traced to continuing government involvement in air travel in the United States. The process begun by airline deregulation needs to be completed. r

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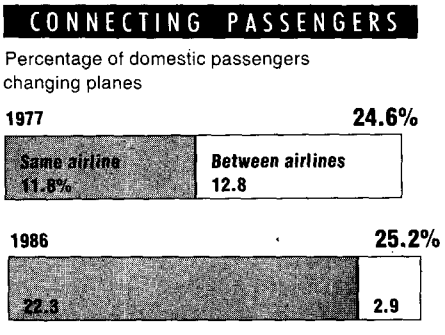
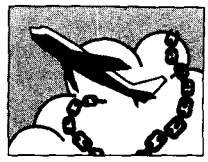
Changing planes used to mean running to another airline, not just crossing a terminal.



Source: Airline Economics, Inc.



ONWARD AND UPWARD

Free the Airports

BY ROBERT W. POOLE, JR.

"Exactly 10 years after it began with much ballyhoo, the great American air deregulation 'competition' is over," wrote syndicated columnist Bob Maynard in September. And a June 1988 *Consumer Reports* cover story explained "The Big Trouble with Air Travel." The villain in both pieces—and many others—is the relatively new phenomenon of "fortress hubs." Airline deregulation, many people seem to think, has ended up replacing national monopolies with local monopolies.

On a national level, eight major airlines compete vigorously, and the largest (Texas Air's combined total of Continental and Eastern) holds only 20 percent of the market. But at a number of big-city hubs, a single airline has come to predominate: USAir at Pittsburgh (84 percent of all flights), TWA at St. Louis (82 percent), and Northwest at Minneapolis (80 percent). Salomon Brothers airline analyst Julius Maldutis found in a 1987 study that 40 of the 50 largest airports in the country are "highly concentrated"—meaning that only one or two airlines provide the majority of service.

Concern that dominant airlines may overcharge passengers has led to calls for the federal government to step in with some form of regulation. Even Alfred Kahn, the father of airline deregulation, has advocated reregulating the fares of single-carrier routes from concentrated hubs. Others want to use the antitrust laws to break up the airline mergers that have led to some of the more extreme concentrations.

How much of a problem are fortress hubs, in fact? And if they are a problem, what should be done about them?

The development of hub-and-spoke route structures is one of the greatest productivity-increasers in airline history. Trying to serve more than a handful of city-pairs with a modest number of airplanes is very difficult if you try to link them all on a point-to-point basis. But by feeding flights into a central hub where people can change planes, the number of possible city-pair combinations escalates dramatically. For example, an airline that serves 30 cities can provide flights from any one of them to any other one—900 possible pairs—with only 30 planes, using a central hub. It's been estimated that to provide just a single nonstop flight per day between every city-pair currently receiving airline service would take 162,000 flights—*nine times* the present level.

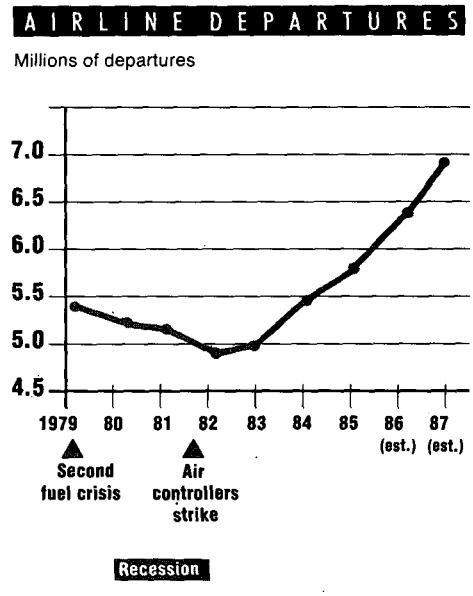
Deregulation did not create the hub-and-spoke system. Delta has been using it at Atlanta for as long as anyone can remember. But by getting the government out of the business of deciding which airlines could serve which routes at which prices, deregulation allowed airlines to opt for greater efficiency by switching massively to hub-and-spoke systems.

Passengers and airlines alike have benefited from the change. Hubbing permits more-frequent service, though it increases the possibility of having to change planes. Still, most passengers today fly either nonstop or make a single plane-change at a hub; the old two-stop, three-stop, and four-stop flights from the CAB era are long gone. Average travel time has decreased. And because hubbing allows airlines to fill more seats on each flight, they can be more competitive in pricing—which helps explain why air travelers are saving some $10 billion a year on fares.

And, while the charge that localized airline monopolies are ripping off consumers has some validity, there's less to it than you might think. Economist Paul Bauer points out that if an airline starts a hub, as American did at Nashville, and ends up with 60 percent of the traffic, as much as half that market share may simply represent brand-new through traffic—people changing planes at the hub. So the 60 percent figure exaggerates the extent of the problem.

In fact, a study by Boeing Co. found that fares for such through services via fortress hubs are highly competitive. For instance, passengers flying from Cleveland to New Orleans, a route that has no nonstop service, can choose among four airlines connecting through four different hubs: TWA (St. Louis), United (Chicago), Delta (Atlanta), or Northwest (Memphis).

But that same Boeing study found that the opposite is true of local service from fortress hubs. Local flights originating at USAir's Pittsburgh hub, for instance, cost nearly 50 percent more than the "Standard Industry Fare Level," TWA's from St. Louis about 42 percent higher, and so on, for 14 fortress



Source: Airline Economics, Inc.

With nearly 30 percent more planes taking off than before deregulation, airports are feeling the squeeze.

hubs. No wonder many people are worrying about captive consumers.

How can airlines acquire such huge market share at hub airports? Wasn't freedom of entry the hallmark of deregulation? To be sure, the federal government no longer prevents any airline from seeking to serve any route it wishes. But to serve a city, the airline must be able to land and take off. And here it runs right up against the local, regional, or state government that operates the airport.

Airports are inherently commercial enterprises; they can and do make money for their municipal owners. But that does not mean they are run like for-profit businesses. Federal policies, bureaucratic tradition, and nonmarket thinking have combined to make airport operations a kind of bureaucratic-socialist enterprise—which the airlines have long since learned how to manipulate for their own benefit. As a result, incumbent airlines can insulate themselves from new competitors.

Since airport capacity is scarce, we need to make it profitable to be in the business of providing airport capacity. Privatization would do the trick.

The name of the game is to limit access to terminal gates and to landing slots. Incumbent airlines often have a lock on both.

Before deregulation, airport operators who needed to sell bonds to finance their terminals were glad to sign long-term leases—for as long as 50 years—with their existing airline tenants. In exchange for agreeing to sign, the airlines insisted on "majority in interest" clauses in the leases. An MII clause requires the airport operator to get permission from a majority of the existing airline tenants before embarking on any additional bond-funded expansion.

As long as CAB regulation severely limited entry, those clauses were of little consequence. But today, airlines use them to maintain their virtual monopolies. USAir, for example, okayed a new Pittsburgh terminal only on condition that the old terminal could not be used by other airlines and USAir would get an increase in gates from 33 to 42, while all other carriers would still have just 20. Similar provisions required the demolition of the old Atlanta terminal when the new one was built—to protect the dominant positions of Delta and Eastern. Today, Continental and United are in court trying to prevent Denver from building a new airport that would be large enough to accommodate a third large hub operation.

To make matters worse, landing and take-off slots—the right to use the runway at a specific time—are generally parceled out not by supply and demand but by haggling between interest groups in appointed "scheduling committees." Here again, the incumbent airlines tend to predominate.

Something of a market in slots does exist at four of the country's largest airports, but with a fatal flaw. The federal government has imposed a ceiling on the number of slots per hour at O'Hare, Washington National, LaGuardia, and Atlanta's Hartsfield airport. Within the ceiling, the Federal Aviation Administration does allow airlines to buy and sell these airports' slots among themselves. Advocates said that this process would let the market allocate slots, much as it allocates 737s. But Boeing sells 737s to anyone who has the asking price, and it keeps producing them until the demand is filled. Nobody is producing any more slots these days. And, predictably, there have been very few sales by fortress hub incumbents to would-be entrants.

What we have, then, is an artificial scarcity of airport capacity at our government-owned airports. Breaching these fortress hubs will not be easy, but a thought experiment can show how to do it. Suppose airports were run as for-profit enterprises. When a demand existed for more service at a hub (local passengers wanting more choice, airlines wanting to provide it), it would be in the interest of the airport company to meet this demand. Presumably, it would do this by adding capacity: building more terminal space and adding runways or electronics to create more landing slots. It would be able to finance these additions by charging its users: passengers, airlines, concessionaires, and so on.

It would *not* be in the interest of a for-profit airport company to link its future to one or two airlines. And under today's competitive airline conditions, an airport company would not need to rely on long-term leases to obtain financing. Given the serious constraints on building new airports in urban areas, increasing the capacity of existing airports is a guaranteed money machine—what one airline doesn't need, another will be glad to use.

In short, since airport capacity is scarce, we need to make it profitable to be in the business of providing airport capacity. Airport privatization—ideally—would do the trick.

Five years ago the very phrase "airport privatization" would have sounded fanciful. But today airports are one of the new frontiers of privatization. In 1987 the British government privatized the British Airports Authority; it is now a for-profit, shareholder-owned enterprise that owns and operates Heathrow, Gatwick, and a number of other airports. Less flamboyantly, the Canadian government is in the process of selling off that country's major airports to enterprises owned jointly by investors and local governments. New Zealand, Malaysia, and Thailand are all considering selling government-owned airports. And both the Japanese and Chinese governments are using private capital and management to develop all-new airports.

Here at home, the management of parts of major airports by private contractors has been quietly growing over the past decade. Only one airport serving major carriers—Burbank—is operated entirely by a private firm, Lockheed. But Merrill Lynch has been holding discussions with Atlanta officials about a possible purchase of Hartsfield International by an unnamed (but rumored to be Japanese) group of investors. And

Denver officials are discussing a major role for the private sector in financing and building their new airport—precisely to get around resistance from Continental and United.

Even though most airports are not going to go private, at least in the near term, there are ways to get them to operate more like for-profit enterprises. Federal policy imposes many barriers, which should be speedily removed in order to open up entry at fortress hubs. Airports need to be given the freedom to create new capacity, in both gates and slots, to facilitate service by additional airlines. Since capacity depends critically on the adequacy of runways and landing aids, the control tower and the equipment that guides planes in for landing should be transfered from the FAA to the airport operator.

Last October's drastic cutback of flights at O'Hare, for example, stemmed directly from the shortage of controllers and obsolescence of the tower and equipment. But the FAA can't allocate the necessary money for upgrades because O'Hare competes with the "needs" of airports in 434 other congressional districts. Were O'Hare the owner of the tower and equipment, and the employer of the controllers, it could generate the funds to remedy these deficiencies in short order.

And that leads to the second requirement. Airports must be given the authority to charge market prices for their services—which they cannot now do, under the regulations imposed by the federal airport grants program. Any airport that elected to opt out of the grant program should be free to do so. In exchange, it would gain the authority to levy both passenger facility charges (probably $3-5 per passenger) and landing fees based on supply and demand.

With hefty new sources of revenue, commercial airports would not need federal grants, nor would they be dependent on municipal bond revenues linked to majority in interest (MII) clauses. But to hasten the demise of fortress hubs, it would also be interesting to explore the applicability of the antitrust laws to the MII clauses. A plausible case can be made that by making such agreements, airport authorities are "restraining trade" as that term is used in the Sherman Act.

Finally, the above changes would make explicit what is only implicit today: that a "slot" is physically the creation of the airport authority, not the airlines. The addition of a microwave landing system or a separate runway for commuter planes can substantially increase the number of slots. Hence, slots should be legally recognized as the property of the airport, not the airlines. It is highly likely that airport operators—even government ones—would not sell their slots but would auction off the right to use them for relatively short periods, probably a few years at a time. This, too, would facilitate entry by newcomer airlines.

In short, airline deregulation has not failed, even though fortress hubs have popped up in some locales. Rather, Congress has failed to complete the job of opening up markets for air service. Rather than reimposing regulation, the urgent task today is to breach the fortresses, letting in the winds of competition. [r]

Robert W. Poole, Jr. is president of the Reason Foundation and publisher of REASON. A former aerospace engineer, he has written widely on aviation issues.

SURPRISES, BUT FEW REGRETS

A Conversation with Alfred E. Kahn

INTERVIEWED BY ROBERT W. POOLE, JR.

ALFRED E. KAHN is, offficially, Robert Julius Thorne Professor of Political Economy at Cornell University. But most people just call him "the father of airline deregulation," a title he garnered as head of the Civil Aeronautics Board from 1977 to '78. Accessible and opinionated, he is still sought-after by reporters looking for good quotes and for signs that he might disown his controversial offspring. But while he does offer the occasional criticism, particularly of airline monopoly power, Kahn's disenchantment with deregulation has been greatly exaggerated. He is, was, and will be a proud papa.

"Now," he wrote recently in *Regulation* magazine, "when a plane crashes or nearly does, or when congestion, delays, labor unrest, a bankruptcy, accident, price war—or a price increase!—or a rash of lost baggage puts the airline industry in the news, one reporter or another will look up my number and call me to ask if I am sorry for what I did. My invariable answer is no. I would do it again." Kahn was interview by REASON publisher and long-time airline watcher Robert W. Poole, Jr.

REASON: When you assumed the CAB chairmanship, did you think deregulation would go as far as it ended up going, actually eliminating the CAB?

KAHN: No, I did not. Very few people foresaw that end result, and surely not that it would come so quickly. I do remember specifically saying that I really preferred to be on the Federal Communications Commission. That was the future. I didn't regard it as my highest aspiration to make it possible for people to jet all over the world. And I thought what I was doing in New York, where I was chairman of the Public Service Commission, regulating gas, electric—the whole energy and telecommunications field—was more important. But then finally

I became persuaded that, by an interesting conjuncture of political and economic developments, airlines was where it was going to happen first.

REASON: What created the critical mass of support to make airline deregulation happen?

KAHN: I think a whole series of circumstances. The industry had engaged in a total substitution of jet for piston craft, partly because the regulations forbade them to price their flights on piston craft intelligently. They should have been free to reduce those prices to whatever point necessary as long as they could cover their incremental cost—so as to continue to use what were not obsolete planes. This was equipment that still had good economic life.

REASON: But because the planes had been depreciated—is that it?

KAHN: Because the airlines were not permitted to have price differentials. Since you had to set the same prices, obviously no passenger was going to travel on a piston aircraft if they could travel on a jet. So the airlines had gone not only the entire jet route but then the widebodied jet revolution. The industry found itself with an enormous excess capacity—all those beautiful, empty seats waiting to be filled.

REASON: But didn't that lead the industry to fight more doggedly to preserve regulation?

KAHN: It had two effects. On the one side, yes. It led the CAB for five years, about '70 to '75, to refuse as a matter of policy to entertain one single request for new route authority.

At the same time, the industry was not making any money. For five years the trunk carriers averaged 3 percent on equity. So it began to look attractive to some firms to say, Look we've got all these empty seats. It was American that came up with the idea of the SuperSaver: capacity restricted, low fares, well above incremental costs, clearly compensatory. Then some of the carriers, particularly United, which never was permitted to get a new route because it was so big, began to say, Well, maybe we can do better in a free market.

REASON: Do you think the fact that it was a Democratic administration helped? And that people like Ted Kennedy supported it, when deregulation had more traditionally been associated with Republicans?

KAHN: I think it probably helped. But of course, the initial proposals came in the Ford administration. As a matter of fact, it was Kennedy—that is to say *John* Kennedy's Council of Economic Advisers, back in the early '60s—that began to propose some deregulation of transportation.

REASON: That I didn't realize.

KAHN: Remember, also, that anybody who is a strong antitruster ought to be opposed to regulation. So it was the convergence of the free-market people and the antitrust tradition, in which Kennedy is very strong. We had a most interesting political alliance of the National Association of Manufacturers and Ralph Nader. We had Common Cause and we had the National Federation of Independent Businesses. We had the Ford Motor Co. and we had the Consumer Federation of America.

REASON: Which is really quite an unusual coalition. Looking back now from 10 years, has deregulation worked about as you expected?

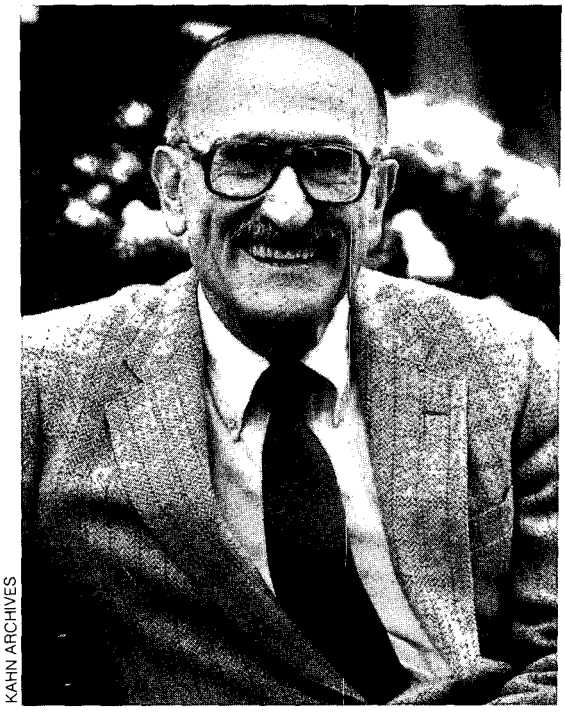
KAHN: Yes, it has for the most part. I would, of course, not claim there were no surprises. If the regulators could be omniscient, then regulation could work perfectly well, but the essence of the case for the free market is *unknowability*. That's one answer.

I was amazed at how rapidly people came into the industry and how much they succeeded for a while. The extent of price competition exceeded my wildest expectations. On the other side, the rapidity of the disappearance of all those competitors—I knew there would be turmoil, I knew there would be entries and exits and reorganizations. An industry that had been in a hothouse of protectionism for 40 years, you would expect a great shakeout. But both the turmoil on one side and the shakeout on the other were far more extreme than I would have expected.

One of the ways in which we were clearly mistaken was in expecting that the more you got really intense competition, the more you would get uniform prices. Because we all know as economists that price discrimination is a phenomenon of monopoly. But I remember also saying, This is an industry in which you're always going to have marginal costs way below average total costs if you have scheduled flights, and therefore we are probably never going to lose patterns of price discrimination.

And it turns out that the advantages have been enormous for the hub-centered, *big*, brand-name carriers, who have also with extraordinary rapidity: One, got their costs under control, which we hoped and expected. Two, developed computerized reservation systems, which have given really overwhelming competitive advantages. Number three, developed a brilliant marketing technique, the frequent flyer program. And the override commissions—if you are big at the hub you can offer commissions giving major incentives to travel agents.

We emphasized the contestability of airline markets and thought people would be well protected by the possibility of entry, because airplanes can move. Well, I think we exaggerated that and failed to realize how the combination of circumstances that I just described has made new entry highly unlikely—except by existing carriers.



KAHN ARCHIVES

"I was amazed at how rapidly people came into the industry and how much they succeeded for a while."

REASON: It's charged that deregulation has led to reductions in safety. True or false?

KAHN: I don't know of *any* evidence of that. The principal evidence—objective evidence—would be accident rates, which, as you know, are down 35 percent to 40 percent with no trend observable within 10 years of deregulation.

REASON: Are you worried at all that there might still be some trend that has not shown up in actual crashes?

KAHN: I think we have to be alert to it. We must recognize, of course, the principal protection is never government regulation but the incentive of the people in the front of the plane. We've got two hostages. And the fact that the airline company which has a series of crashes is finished.

REASON: And there's actually evidence that they get punished immediately in the stock market for crashes.

KAHN: Absolutely. The fact remains, that there may be, under pressure of competition, some temptation to cut corners—even if you discount, as you must, the complaints of the disgruntled pilots and machinists, who are obviously not happy about deregulation. I can't deny when companies are losing hundreds of millions of dollars a year, there may be some strong temptation to say, Take off, we'll look at you later. And that's why I'm not a total free-marketeer and believe that you do have to engage in safety scrutiny.

REASON: Was there any thought given in the process of crafting deregulation to making sure that the FAA, which after all has the responsibility for safety regulations, would keep pace?

KAHN: I wrote formally to the head of the FAA to say, You have an increasing responsibility for safety. There are going to be new carriers, probably more of the business will be taken over by commuter carriers, who on *average* have a poorer safety record. And more people are going to be flying, and therefore, FAA, we want to alert you to the fact that we are deregulating and you've got to increase appropriations.

REASON: And yet that didn't happen. Congress failed to act.

KAHN: Absolutely failed. That relates to some of the things you have been saying about the absurdity of having the FAA's budget incorporated with the federal budget.

REASON: It relates also not only to the safety, but to the problem of delays and congestion.

KAHN: I made a speech on airport congestion at the FAA conference in 1978, in which I said, You have got to start pricing airport landings intelligently. Don't expect us to do irrational things in order to protect you. Don't expect us to ration flying. We are going to move in the direction of liberalizing, and you have got to mend your ways. Now of course the FAA is just—and DOT—it's just *incredible* their stupidity. Particularly in an administration that is supposed to understand how the free market works.

REASON: What would you change about the way air traffic control is provided to keep pace properly with the needs that are out there?

KAHN: I've not gotten as far as you in having great certainty about what is the ideal method of organization. I certainly agree that this is a perfect case in which services are being supplied to particular people who should pay for them.

REASON: You're saying it should be directly user-funded.

KAHN: Precisely. I believe in user fees. But I think the other side of the coin is that when you pay the fees you should get the services. So I feel strongly, second, that being subject to civil service procurement, civil service personnel compensation, and the like does not make sense when you're talking about the supply of essentially commercial service. So I'm attracted to the idea of air traffic control being supplied by some relatively autonomous self-financing agency. I'm similarly attracted to the idea of the airports having incentives to price intelligently.

REASON: Every time market pricing is suggested, the small-plane owners say, Wait a minute, this is all wrong, we pay through user taxes for access and it's unfair, discriminatory, to keep us out.

KAHN: That's ridiculous. The fact that a service is supplied by government authority does not mean that one has a right to it regardless of cost or price. I'm probably much more prepared than you to make some services available to people regardless of their ability to pay. But I would subject those to a means test—and as I said to these people when they raised this question to me, If you're prepared to make a good case for airline travel stamps, like food stamps, for people who can't afford it, I'm prepared to say okay.

"When a Learjet with 3 passengers uses up space that would be used by 200 or 300 people in a larger plane, I do not believe in excluding them arbitrarily, but I believe in making them pay the price."

REASON: Or Learjet stamps.

KAHN: Yes. But as long as we are dealing with a scarce resource in which there are genuine economic costs imposed by landings, costs in terms of congestion and delay and exclusion of other people, then we have *no* choice but to use those limited resources, intelligently, to price them. When a Learjet with 1 or 2 or 3 passengers uses up space that would otherwise be used by 200 or 300 people congregated in a larger plane, I do not believe in excluding them arbitrarily, but I believe in making them pay the price.

REASON: If it's really worth it to them, let them pay it, sure.

KAHN: By the way, I think that is in large measure the answer to the commuters who claim that they will be excluded from the market because a plane with 20 people can't pay as much as a plane with 200. The question is not whether one plane with 20 can pay as much as one with 200, but what will people pay for the *first* commuter trip out of a relatively small community in order to be able to travel at a congested time as compared with the fifth trip out of a big community.

REASON: One of the biggest problems with deregulation in the last few years seems to be the phenomenon of "fortress hubs," where there does seem to be some kind of limitation of competition imposed by one or two carriers gaining a very predominant position. What is your solution to that problem?

KAHN: Oh dear. Well, I don't have a solution to all the problems of the world.

REASON: But as the father of airline deregulation you are expected to.

KAHN: Well, my first answer is that the industry as a whole is far more competitive and customers are clearly saving $10-15 billion dollars a year. Number two, the benefits are clearly being unequally distributed. I don't have any doubt that there are people who begin or end trips at fortress hubs—particularly nondiscretionary travelers who can't stay over a weekend—who are indeed paying monopolistically high prices. Some of the fares that I hear of, even after I adjust for the inflation of airline costs that have occurred over the last 10 years, do strike me as outrageous.

REASON: In other words, fares in those kind of situations...

KAHN: I think do have a monopoly element. We must recognize two offsets immediately. One is that those high fares play an important role in determining and justifying the scheduling decisions by the airlines. And studies about the convenience of scheduling for business travelers, particularly, all demonstrate that there has been a very substantial improvement in convenience. Therefore, the people to whom that convenience is important are the very ones who are for the most part paying these higher full-coach fares.

REASON: So they may not be exploited to the degree that it seems.

KAHN: Number one. Number two they get frequent-flyer benefits. And that tends to be the same people. The fact remains that there is a residual here of monopoly that troubles me. And while I know that you're never going to solve totally the presence of monopoly power in any industry—competition is necessarily imperfect—I certainly would have wanted to see a more aggressive enforcement of the antitrust laws.

REASON: Relating to which mergers have been allowed?

KAHN: Which mergers, for example. But I hasten to say that the popular impression that this is principally the result of mergers I think is wrong. The mergers have been far more a reflection of the nonviability of competition by the smaller carriers than they are the *cause* of the monopoly. I am prepared to call—as I have for three years—for the divestiture of the computerized reservation systems.

REASON: But the airlines such as American and United have invested huge resources in developing those as marketing tools. Do you really think that it's justified to take them away?

KAHN: No, I don't think you should take them away in the sense that you simply deprive them of the value of their innovations. But it isn't simply that they've developed these, marvelous as they are, innovations. That would not alone explain why it is that over 90 percent of travel agents in Dallas–Fort Worth use the American system, whereas 75 percent of the travel agents in Denver use the United system. That is clearly closely related to their dominance as carriers in those particular hubs.

Also, we need to consider the preferential relationships between the hub-dominating carriers and the airport facilities. We've got to divorce the financing of airports from the long-term leases entered into by the dominating carriers, because those preferential arrangements are an impediment to free entry.

Another thing we surely should try to do—the obstacles would be enormous—is to expand airport capacity. Observe particularly the way Midway has created a niche for a new competitor, Midway Airlines, who has miraculously survived. And Love Field at Dallas–Fort Worth in the same way. Hobby at Houston in the same way. I just got a long letter from the people who are in Newburgh—you have probably not heard of Newburgh. It's about 60 miles north of New York City. There's an old military field there. You could build a limited-access road so that it would be an hour from New York City itself and therefore much less than an hour for a lot of people who now have to go to Kennedy, LaGuardia, and even Newark. And apparently it is a relatively depressed area. They might be happy to expand airport capacity. And that would also create the opportunity for new competitive entry.

I went down to testify before the Fulton County Board of Commissioners—that's out in Atlanta—on behalf of a group that was trying to set up a new airline that would just give commuter service beginning in Atlanta, going someplace and coming back—Detroit, New Orleans, a few other cities. Recognizing that those people don't need the big Hartsfield airport, over 75 percent of whose traffic is really connecting traffic. It's the commuters who are the ones who are paying the very high prices. So we were pleading with the commissioners to permit this—there was a *perfect* airport for turnaround service. The county commissioners wouldn't do it. It's partly the influence of Delta. Partly Coca-Cola, which uses that airport for flying crates of Coca-Cola around the world. But that would have been an entrée for a competitor who might have survived because of the niche. Whereas the competitor did not survive, *could* not survive, in direct confrontation with

BETTMAN ARCHIVES

Airline representatives line up at the CAB around the clock for six days, waiting to claim routes after President Carter signs the deregulation bill. United is first in line.

the majors.

REASON: Do you see any role in expanding our nation's airport capacity for private capital and the private sector—perhaps, the airports being developed as for-profit enterprises?

KAHN: I would be all for it, simply because of my desire to open markets for anyone who wants to invest his or her capital. The problem is, however, that as long as they are competing with airports that price subject to stupid constraints, it diminishes the possibility of their coming in.

REASON: If you want to foster that kind of thing you'd have to look at some of the existing policies...

KAHN: Which hold prices to noncompetitive historic costs. And don't leave out—high on the list of possible solutions—foreign entry.

REASON: You mentioned that in a *New York Times* piece. Could you explain what's not permitted today?

KAHN: In the strange world of transportation, particularly airlines, things are taken as gospel that are totally unknown outside the airline field. We permit foreign companies, foreign entrepreneurs, to own hotels, to supply banking services, to own land, to own industrial establishments—to serve the American market without limitation. We do not permit foreign airlines to carry American domestic traffic. That's not just us. That's universal law. There's an eighth deadly sin, apparently, and that's called *cabotage*. That's the sin of a foreign-owned transportation enterprise carrying domestic traffic in any country.

"We permit foreign companies to own hotels, to supply banking services, to own land. We do not permit foreign airlines to carry American domestic traffic."

REASON: If British Airways is serving London from New York and Chicago, it cannot carry any domestic passengers between those two points.

KAHN: Before I came to the CAB, even Pan Am, which might fly from San Francisco to New York to London, could not fill any empty seats on the San Francisco to New York part of the journey with local passengers. Absolutely absurd. That we eliminated with deregulation, but it remains true of foreign carriers; they cannot carry domestic traffic, nor can a foreign airline own more than 25 percent of an American airline.

It's perfectly clear that foreign carriers are more and more looking for ways to compete effectively with American carriers. They have a very severe handicap. The KLM people have said to me that they fly out of Atlanta. They have great difficulty competing with Delta, because they don't have all the domestic flights feeding into it.

REASON: That explains why SAS just made a deal with Texas Air?

KAHN: Yes. I don't expect miracles to come, but I think it's a desirable thing.

REASON: So this allows all of Continental and Eastern flights to feed traffic into SAS.

KAHN: And the reverse. Not a tremendous amount of traffic, I'm sure. A more important consideration is SAS's reputation for quality, service—and Continental and Eastern do have a very severe problem, perhaps more in perception than in reality.

I have much more mixed feelings about the British Airways–United arrangement, because that under previous antitrust administrations might well have been attacked as eliminating really strong potential competition. United, with its enormous U.S. domestic route system, is a logical carrier to go on to the international route, and British Airways, but for our prohibition of cabotage, might have been delighted to build its own domestic route system.

REASON: Could you reflect on the degree to which what we've learned from airline deregulation has some applications for other industries today? Are there other areas where we should go further with deregulation and build on what's been done with airlines?

KAHN: Of course I think that's true—although the main industries that I'll identify are ones that we have already in some measure done that to, like trucking.

REASON: But should we go further in those areas?

KAHN: We are, I think, embarked almost irrevocably on the same path—although we are only a tiny distance along the way—in electricity, in natural gas transmission and distribution, in telecommunications, and in financial markets. Now in all of these cases, there are unique aspects, the most important common one of which is that there remain large areas that may be natural monopolies. And in which we are therefore not willing, and probably should not be willing, to go all the way to total deregulation. And that creates mammoth problems of possible distortions in an industry that is part regulated and part competitive. But I think even in telecommunications, where there's been a lot of turmoil, that we are seeing the benefits of decentralized innovations and competitive entry—most obviously in the customer terminal equipment field but also in telephonic equipment generally, where Western Electric used to dominate. And in the fashioning of packages of services tailor-made, mixing telecommunications and computer technology.

I think the same thing is likely to continue in the electric field and the gas field. And again, it's likely to happen in banking as well. Though we've got to recognize that you may get into terrible distortions if you don't deregulate entirely. And nobody's prepared to eliminate deposit insurance, and we've just seen that the combination of deposit insurance and competition produces an *incredible* mess.

REASON: It certainly is an incredible mess, and we still don't know how large its cost is going to be.

KAHN: It's going to cost in excess of $100 billion. And that's because we have not thought through clearly the implications for other government policies of introducing competition. Just as we had not in airlines.

REASON: We failed to keep the infrastructure in mind.

KAHN: By deregulation, we've increased the demand for infrastructure, but we haven't done anything about the supply, or the effective rationing of supply.

REASON: Thank you so much. This has been terrific. ◻

ARE ADDICTS SICKORBAD?

BY VIRGINIA I. POSTREL

"We have made criminals out of millions of people who have a disease," said Baltimore Mayor Kurt Schmoke.

It was the first day of the Drug Policy Foundation's International Conference on Drug Policy Reform, and Schmoke was speaking to an overflow crowd at lunch. Smart, articulate, and handsome, he was the hero of the conference, an up-and-coming politician who actually advocates drug-policy reform. His public-health rhetoric was just what I expected to hear for the next three days—calls for more treatment programs and images of drug users as victims of an uncontrollable disease.

I had come to the conference to challenge the medical model. Assigned to a panel with the intimidating title "The Libertarian Alternative: It's More Sophisticated Than You Think," I would argue that a market approach to legalization is more politically feasible than a medical approach. People do not want some kind of government Good Humor trucks roaming the streets dispensing free drugs—the kind of "legalization" drug warriors conjure up to scare people. A drug welfare state, I would contend, is not much better than a drug war. I didn't expect anyone much to agree with me.

I was wrong. True, the 150-plus conference attendees included plenty of social-worker types lusting after federal dollars. One panel was even called "How Will All the New Treatment Funds Be Spent," a reference to the $250 million allocated by the just-passed drug bill. As I sneaked in the room late, one Joanne C. Gampel was droning on in a New York accent that could scratch glass. She was reading an endless list of incomprehensible (and possibly meaningless) statistics—all aimed at showing that both treatment programs and her bailiwick, collecting statistics, need more federal money. She wasn't specific about how much, but an audience member proffered this rule of thumb: "What do they spend now? Double it, triple it, quadruple it." In other words, hand this woman a blank check.

Despite the feeding frenzy, some interesting ideas still got through. William Wilbanks, a criminal justice professor at Florida International University, suggested that the "monkey model" of addiction is preventing sound approaches to drug education. People believe that once someone tries cocaine, for instance, he will become enslaved to the drug, like experimental monkeys that press a lever to get cocaine until they kill themselves.

This concept of human beings as caged laboratory animals, Wilbanks argued, leads to two kinds of drug education: deterrence (scare tactics, "just say no") and treatment (primarily medical programs for addicts). What's missing is "prevention"—strategies to help people who do take drugs control their habits so they don't become addicts.

By telling people they're not responsible for their behavior once they "lose control" to drugs, the monkey model may even encourage addiction. (It also ignores data indicating that about 24 people have tried cocaine for every 1 full-blown addict.) Wilbanks opposes legalization of hard drugs as long as the monkey model holds sway. Legalization would lead more people to try drugs; the monkey model would lead them to interpret the desire to take more drugs as an uncontrollable addiction—a self-fulfilling prophecy.

Wilbanks expected his talk of self-discipline and personal responsibility to arouse suspicion. Hearing his southern accent, he suggested with a twinkle, his audience might even take him for a fundamentalist Christian. He isn't. But he is genuinely offended at the idea that individuals, including drug users, can't make moral choices. "The New Obscenity," he calls it.

If Wilbanks's rough-hewn moral critique represented one wing of the attack on the medical model, Bruce Alexander's decidedly unmoralistic approach was the other. Alexander is a psychology professor at Simon Fraser University in British Columbia and a determined foe of the idea that addiction is a disease.

The medical and moral approaches are not opposites, he argued, but merely manifestations of the same view of addiction: "Sickorbad. It's like it's one word. Either addicts are sick or they're bad." Either way, most people advocate a war on drugs—to contain the plague, stop the evildoers, or both. Despite its scientific patina, the medical model grew up along with the 19th-century temperance movement and reinforced its arguments. Prohibitionists maintained that the only way to avoid succumbing to the disease of addiction was to abstain altogether from drink or drugs.

Indeed, the last-minute drug bill represented the triumph of the sickorbad theory. Without fear of paradox, it split its appropriations equally between law enforcement and education/treatment. And, in a separate bill passed at the same time, Congress even overturned a Supreme Court decision allowing the Veterans Administration to rule alcoholism a form of "willful misconduct." Alcoholism, at least when it comes to veterans' benefits, is officially a disease.

Against this view, Alexander posits an

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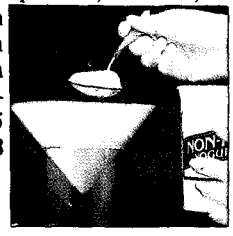

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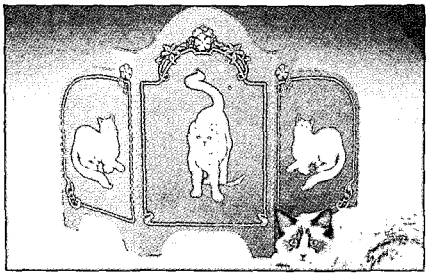

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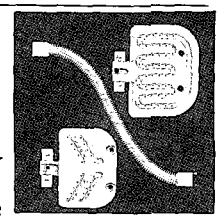

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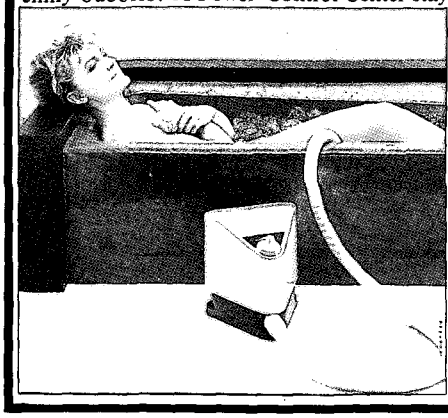

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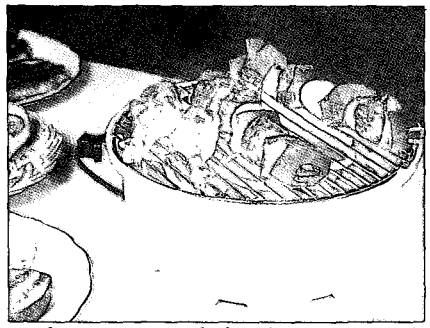

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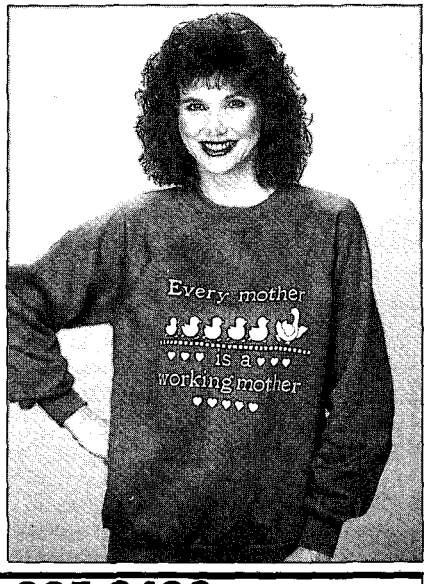

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"adaptive" model. Addicts turn to drugs not because they're sick or bad but "as a natural consequence of human distress." Addicts *choose* to take drugs because, as bad as it is, life with the drugs seems better than life without them. Alexander makes no broad claims about free will. But he does view human actions as purposeful, even if the root causes of those actions lie in a faulty upbringing, unfortunate genes, or an inadequate environment.

As a researcher, he works with real-live addicts as well as rats and monkeys. "I ask them where they'd be without heroin," he told me. "They say they'd be dead."

Wilbanks and Alexander both popped up on several panels. So did other critics of the medical approach. At least in the sessions I attended, nobody seemed very enthusiastic about exchanging the drug war for some kind of addiction maintenance program. (There was, however, a great deal of support for the American Medical Association's very moderate position that physicians should have the legal right to dispense methadone to private patients, outside the bureaucracy of an official government program.)

The audience grumbled when one speaker suggested letting anyone buy drugs—but only from a physician. It would just make the doctors rich, commented the woman next to me. In Britain, she said, one of the heroin-dispensing doctors even set up shop in a subway station. Better to use pharmacists. And even then, she said, "the typical junkie knows more about drug reactions."

Behind many of the arguments against the medical model lies the work of two men: psychologist Thomas Szasz and philosopher Herbert Fingarette. Few people completely accepted Szasz's radical critique of the "therapeutic state," but still fewer discounted it altogether. Szasz's arguments that the disease metaphor is just that, a metaphor, and that the state has no business overseeing its citizens' mental conditions have made a lasting impression.

Fingarette, in his recent book *Heavy Drinking*, not only made philosophical points but also demolished the empirical evidence that alcoholism is a disease. The Supreme Court drew on his work in its V.A. decision; so did many of the conference attendees. (For a summary of Fingarette's arguments, see the Spring 1988 issue of *The Public Interest*.)

To change the drug laws, we have to do two things: convince the public that they should be changed and suggest an alternative. In the name of saving people from the disease of addiction, the war on drugs now imposes tremendous costs on nonaddicts—in crime, lost liberties, diverted law enforcement, and tax dollars and cents. Every child shot in gang crossfire and every drug cop killed in the line of duty is a martyr to the idea that the law should protect addicts from themselves.

We have to abandon that idea and to make drug users responsible for their own actions—and their own choices. Drug reformers are beginning to realize that only when we relinquish the medical metaphor and treat addicts not as victims to be cared for or criminals to be punished will we find a way out of the current battle zone.

Virginia I. Postrel is associate editor of REASON.

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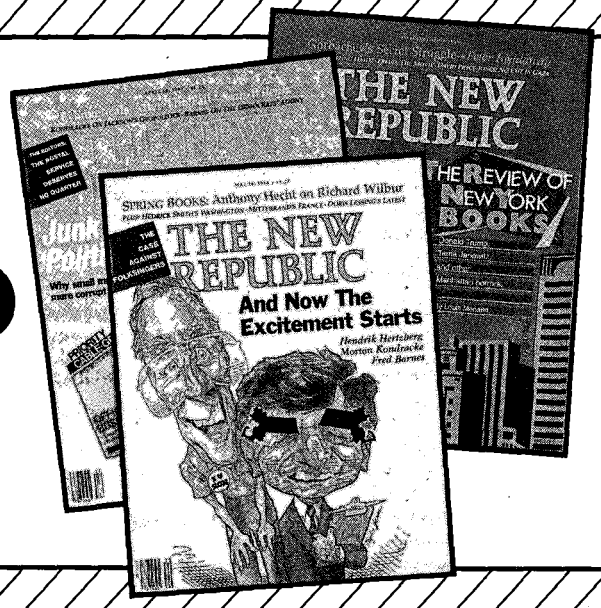

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ADDING UP TO GOOD READING

BY MARTIN MORSE WOOSTER

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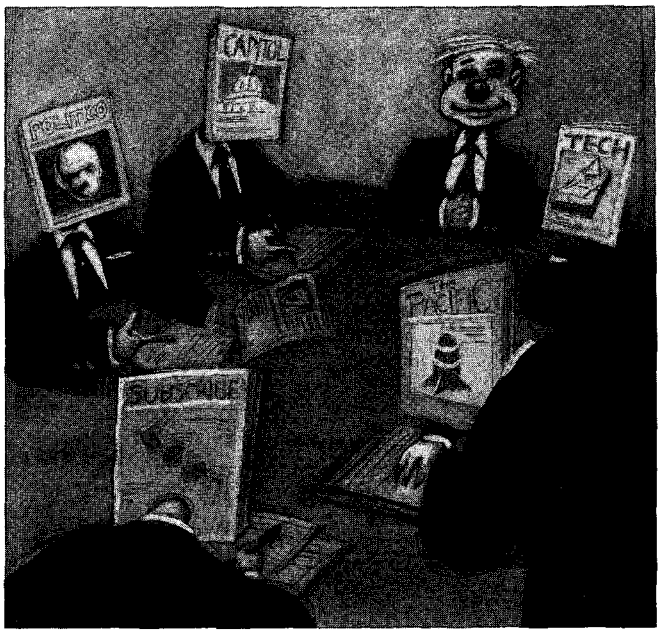

1. *The Economist*. I don't like American news magazines; with the exception of *Insight*, the weekly published by the *Washington Times* organization, they seem to be places where bureaucracy long ago triumphed over individual initiative. (According to *New York* magazine, Time Inc. is now so suspicious of its employees that armed guards have been placed in the employees' cafeteria to prevent the silverware from walking away. If *Time* can't trust its staff at lunch, can it trust them in the newsroom?)

The Economist, however, does things differently. Its staff reports *and* writes, eliminating the distortions that result when a reporter's copy is given to an in-house writer for "polishing." (Peter Drucker, in his engaging autobiography *Adventures of a Bystander*, tells of the occasion when he was the subject of a *Time* cover story; the "polisher" had, without seeing the dog, transformed Drucker's pet Pekingese into a bloodthirsty German shepherd.)

Moreover, *The Economist*'s writers are allowed to express their opinions. Most reporters have beliefs, of course; and if they aren't allowed to express them directly, they frequently sneak personal views into their copy. *The Economist*, however, thrives on opinionated prose. Not only are its editorials, or "leaders," small gems of concentrated analysis (and, as a bonus, mostly market-oriented), but the statist thugs of the Third World are regularly portrayed as, well, thugs. If you want to learn about government mismanagement in Africa, Latin America, and Asia, *The Economist* is probably the single best source.

Lastly, *The Economist* provides a non-American perspective. Most U.S. publications tend to see the world as a stage on which Americans can create comedies or tragedies. So U.S. reporters rarely visit large portions of the world (South America unless people deal or use drugs; India; the black-ruled nations of Africa). But in recent months *The Economist* has reported, for example, on such phenomena as Latin America's turn toward Spain and the flood of emigrants who leave the poorer nations of Southeast Asia for the more well-off Persian Gulf states. These are stories that, because they don't involve the United States or its citizens, would not be covered in depth in the American press.

When I read *Time* or *Newsweek*, I feel like I am trapped in a public-television talk show, where journalists with egos the size of Jupiter (gas giants, like Hodding Carter or Elizabeth Drew) endlessly debate the meaning of the news. When I read *The Economist*, I feel like I'm at the end of a giant conference table, as scores of minions give me inside information from around the world. Perhaps this is why I read every word of *The Economist*—even the parts, such as the Finance section, that I don't fully understand.

At $85 a year, *The Economist* takes a big bite out of your $200, but it's worth it.

2. *The New Republic*. This magazine does it differently, too. Whereas *National Review* is as likely to run a piece questioning America's overseas military commitments as *The Nation* is to publish a defense of Charles Murray, *The New Republic* wisely hires writers and editors who disagree politically, then lets them slug it out.

For socialists, there is the reliably statist Robert Kuttner. For hawks, there are editors Charles Krauthammer and Morton "Yes, I'm Still a Democrat" Kondracke. And there are others whose paths are less predictable; Henry Fairlie, for example, had burned out for years but recently wrote splendid articles on how news of the American revolution spread throughout Europe and the growing clout of the senior citizens lobby. (The title, "Greedy Geezers," illustrates another *New Republic* trait—gratuitous offensiveness.)

Best of all, *TNR* regularly hires market-oriented journalists to bash right-wing statists. In the past few months, for example, James Bovard did a splendid attack on Dan Quayle's major "accomplishment" in Congress, the Job Training Partnership Act, which uses tax dollars to pay businesses for moving plants from 100 miles north of the Indiana border to 100 miles south of it.

I read a good many political magazines. *The New Republic* is one of the few that I enjoy. At $56 a year, it brings your tab to $141.

3. A science magazine. Science magazines tend to have more interesting information in them than most other types of magazines. While some are dull—*Natural History* has little to recommend it besides its pictures, and *Discover* is slickness without substance—here are three that I can recommend.

The Sciences is the best-written science magazine. The art is also superb.

DAVID HWANG

To my taste, its best articles are the ones dealing with "softer" sciences; in the September/October issue, for example, anthropologist Carol Molony discusses whether or not the "Stone Age" Tasaday tribe in the Phillipines was a hoax. *The Sciences* recently won a well-deserved National Magazine Award for the best magazine with a circulation under 100,000.

Technology Review is the most political science magazine; the regrettable Lester Thurow has a regular column, and the editors delight in running pieces by the Institute for Policy Studies' Michael Klare on defense matters. But it is not predictable. So, for example, it also publishes Manhattan Institute fellow Peter Huber on how biotechnology regulation has needlessly blocked new products from coming to market. And one issue last year featured ecologists Michael Dover and Lee Talbot, who showed that traditional agricultural practices in the Third World are both more productive and more ecologically sound than methods imported at vast expense from the West. These surprises help make *Technology Review* the most unpredictable science magazine around.

Scientific American is the dull boy on the block. While never trivializing the issues, *SA* frequently errs on the side of stolidity. Still, the articles are worthwhile—if sometimes hard to follow.

The most one of these science magazines will put you back is $24, leaving $35 in your magazine kitty.

4. *The Atlantic*. I was once told a secret that explains why *The Atlantic* at times seems so dull. It turns out that most articles published in the magazine are sent to outside reviewers. If the reviewer says, "You can't say that! Publishing this will seriously damage *The Atlantic*'s reputation!" the editors, so I was told, promptly remove the "questionable" material.

Maybe it's the same judgment that led the editors, in the past, to publish articles on arms control written by 10! count 'em, 10! authors. But the political articles, with the exception of those by Nicholas Lemann and James Fallows, are not *The Atlantic*'s strong suit; what makes the magazine first-rank are the nonpolitical essays and reportage, on everything from mathematics to beer.

The political articles, with the exception of those by Nicholas Lemann and James Fallows, are not The Atlantic's strong suit. What makes the magazine first-rank are the nonpolitical essays and reportage, on everything from mathematics to beer.

Note to economists: until recently, *The Atlantic*'s subscription rate was $9.95 a year—the same as in 1971! Now it's $14.95. And that still leaves the astute magazine buyer with enough to get a year of REASON *and* a gourmet banana split.

A postscript on the dilemma of succession: Roy Childs recently discussed in this space (July 1988) a changing of the guard at *National Review*, where John O'Sullivan has become that magazine's editor. A succession also seems in the works at *The New Republic*. Editor Michael Kinsley is taking a six-month sabbatical to do a stint as editor of the American Survey section of *The Economist*. Robert Wright will be filling in as editor; the "TRB" column will be written by Hendrik Hertzberg.

Why Wright? "Look at the masthead," says an insider. "All the other *New Republic* editors are TV stars, and Bob is the one who stays in the office and works."

Wright may or may not make changes in the content of the magazine, but I hope he continues the Kinsley practice of allowing free-wheeling debate. These liberals want to regain the presidency, but if they are ever to do so they must abandon the principles that convinced many voters that liberals love to tax success and subsidize failure. Controversy is *TNR*'s lifeblood; block the debate, and the magazine will stagnate.

John O'Sullivan, meantime, would do well to follow Kinsley's example and open up *National Review*'s pages. There are as many divisions on the right as on the left, but you'd never know it by reading *National Review*. The retirement of publisher William Rusher may encourage more openness; Rusher believed Ronald Reagan was infallible, thus ensuring that most critiques of the administration were spiked.

The George Bush administration will probably be much like Gerald Ford's—run by decent traditional Republicans who abandoned their philosophical principles long ago. But a centrist Bush presidency should give both left-wing and right-wing journalists plenty of time to reconsider what they stand for. I look forward to enjoying the debates.

Contributing Editor Martin Morse Wooster was previously Washington editor of Harper's *and an associate editor of* The Wilson Quarterly.

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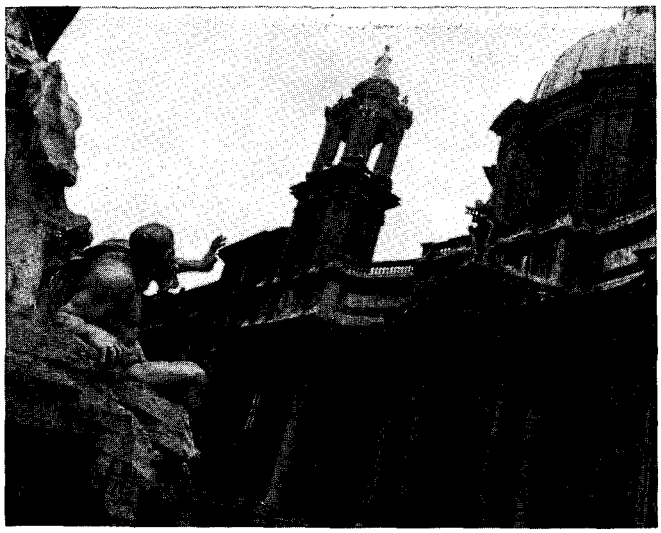
ITALY

THE LEANING TOWER OF STATISM

BY ANTONIO MARTINO

Political rhetoric is changing fast in Italy. Twenty-five years ago the country was moving away from the "center" government, which had presided over the economic miracle of the 1950s with a largely laissez-faire policy, toward a "center-left" coalition government, based on an alliance with the Socialist Party and the exclusion of the classical liberals. The slogans declared that liberalism, with its emphasis on the free market, was not enough. The economic miracle had to be replaced with a social miracle, and for that purpose "modern economic policy" had to supplant the traditional reliance on market forces.



Rome: Even Italy's Communists have begun to criticize statism, which party head Achille Occhetto calls "the true burden which both social democrats and communists must avoid."

The leader of the Italian Socialist Party, Francesco De Martino, declared on TV that if his party won an absolute majority it would nationalize all economic activities, with the possible exclusion of barber shops. Statism, in other words, was the consensus of the overwhelming majority of politicians of almost all political parties. Those of us who dared to challenge the prevailing wisdom—which relied on deficit spending, national economic planning, nationalization, and direct government intervention—were labeled reactionaries and ignored by the new mandarins.

Statists of all parties have had a go at it: from 1960 to 1987, government spending increased 68 times in nominal terms—almost 6 times in real terms—climbing from one-third of gross domestic product to 52 percent. Despite a huge increase in revenue during the same period, the deficit exploded: from nearly 2 percent to 12 percent of GDP. In real terms (1987 prices), total public debt outstanding went from $82.3 billion in 1960 to over $700 billion in 1987. Regardless of how it is measured, government in Italy has grown very rapidly in the past quarter century.

The results of this spectacular growth seem to have disappointed its promoters, however. On July 12, 1987, the leftist weekly *L'Espresso* published a debate between Claudio Martelli, deputy leader of the Italian Socialist Party, and Achille Occhetto, then deputy leader (now leader) of the Italian Communist Party. In the course of the debate, Martelli said: "It's simple: both in the East and in the West we see the crisis of a philosophy that's been common to both social democrats and communists: statism." To which Occhetto replied: "I agree with you more than you do!...Statism, as you say, is the true burden which both social democrats and communists must avoid."

This is not an isolated episode. In his concluding speech at the Communist Party annual festival, Occhetto stressed that the party has "severely criticized the traditional statism of the working class." The productive energies of the country, he said, must be allowed to operate in the private sector, as well as in the public and cooperative sectors. Occhetto is clearly eager to distance himself from his party's traditional statist policies.

The new philosophy is also beginning to show in actual policy proposals. In presenting his plans for a new budget, Giuliano Amato, Socialist minister of the Treasury, advocated extensive privatization of government-controlled corporations, health care and other social services, communications facilities, and even postal services. Not surprisingly, some Liberal Party members suggested that Amato should be given honorary membership in their ranks.

It is too soon, however, for free-market advocates to celebrate. While the rhetoric has changed dramatically, policies have not changed much. No one seems to believe in socialism wholesale, but when it comes to socialism at the retail level, so to speak, the organized action of pressure groups inevitably results in yet more government intervention. For example, while there is general agreement that the National Health System has failed miserably (it is "the scandal of the century," says *L'Espresso*), the bureaucrats and their unions will make sure no one dismantles it anytime soon.

The real hope for the future of freedom in Italy rests more on arithmetic than on rhetoric: statism is financially bankrupt. Interest payments on government debt amount to 15 percent of total public-sector spending. Taxation on labor income has reached 45 percent, and organized business and labor interests are beginning to protest high taxes. At the same time, government's failure is underscored by the tremendous success of private enterprises that compete with it.

Even government agencies resort to private carriers for reliable mail service. And according to CENSIS, an independent research institute, more than half of the people entitled to "free" public health care instead purchase it from private suppliers. Private health insurance is a growth industry and private schools are booming.

As Italy's financial problems get worse, the prospects for a free economy improve. The call for reform will be too strong to resist, and the new rhetoric of limited government will translate into policy.

Foreign Correspondent Antonio Martino is an economics professor at the University of Rome.

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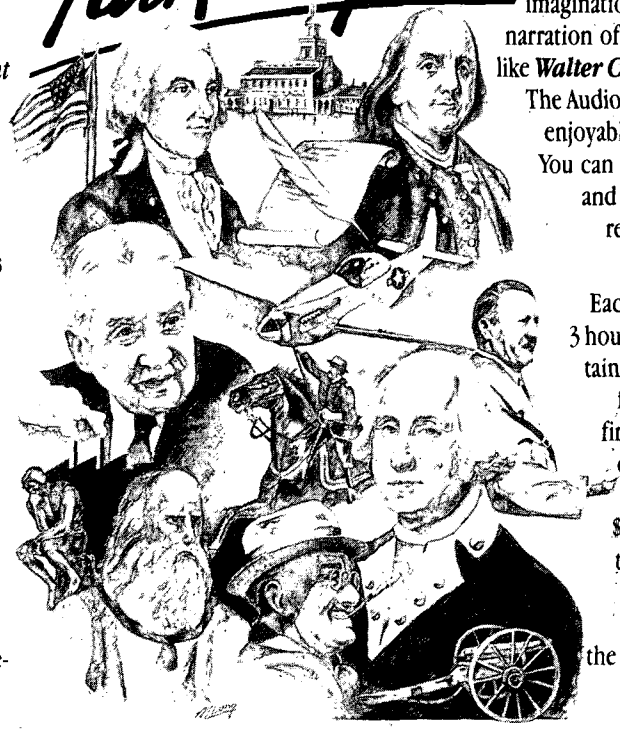

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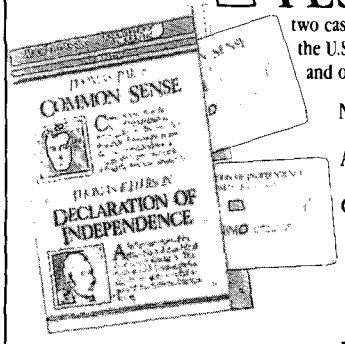

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CONGRESSIONAL FODDER

BY DOUG BANDOW

Unlike Ronald Reagan, George Bush sought the presidency to serve, not to do. As the campaign made painfully clear, the new president has no program as such. He hopes to solve a few disjointed problems, not reshape the role of government in American life.

Unfortunately, the Democrats, who tightened their grip on Capitol Hill last November, do have an agenda, one of expanding federal power virtually across the board. "There is now at least 10 years of pent-up demand in Congress for an array of new spending initiatives," observes David Smick, a Washington consultant. Given the White House's lack of an ideological rudder, the Democrats are likely to set the nation's political agenda. Among the battleground issues will be:

Taxes. Bush endorsed a "flexible freeze" to balance the budget by the early 1990s; he made opposition to a tax hike the cornerstone of his candidacy. Personal honor may be enough to stop him from proposing a tax hike, but whether "read my lips" George will stand firm is not so clear. Perhaps prompted by the National Economic Commission, Congress may propose a budget deal that combines spending cuts and tax hikes. The betting is that Bush will stick by his pledge, at least during his first year, and the Democrats will refuse to consider a tax increase unless the administration simultaneously backs it.

Savings & Loans. The New Deal thrift structure is crumbling, with some 500 institutions sliding toward the financial abyss. Even though the crisis has resulted from years of stultifying regulation compounded by a federal deposit insurance system that protected S&Ls no matter the riskiness of their loans, Congress is likely to further isolate thrifts from market forces. Rep. Henry Gonzalez (D-Tex.), the new chairman of the House Banking Committee, proposes that Treasury provide the Federal Savings and Loan Insurance Corp. with a $50-billion line of credit to guarantee depositors' money, and the cost may go higher. Moreover, Democrats are pressing for increased regulation of S&L lending practices as the price of a bailout.

Banking Deregulation. Last session, legislation to remove Depression-era restrictions on commercial banks was killed in the crossfire between warring committee chairmen and interest groups. Progress is no more likely this year, given the ferocity of opposition from the securities and insurance industries and the turnover in congressional leadership. (Sen. William Proxmire retired and Rep. Fernand St Germain was defeated, opening up the chairmanships of the banking committees in both houses. But neither new chairman seems enthusiastic about unchaining the banks; both will also need time to consolidate their authority.)

Minimum Wage. Only a Republican filibuster last fall killed Senate legislation to hike the minimum wage from $3.35 to $4.55 an hour. Though the Reagan administration failed to create a subminimum wage for teens, it did succeed in holding the minimum constant, ameliorating the law's job-destroying effects. An increase seems inevitable this year, however, since candidate Bush endorsed a hike in an effort to woo labor votes. Congressional Republicans will not fall on their swords now that their leader has surrendered.

Child Care. All semblance of the quaint notion that children are a family, not a government, responsibility is disappearing. Senate Democrats propose $2.5 billion in day-care subsidies—accompanied by expansive federal regulation. Bush responded during the campaign by advancing a hefty tax credit. The prime question this year is not whether Congress will pass a child care bill but whether the Bush administration has sufficient backbone to stand up to congressional restrictions on private providers.

Parental Leave. Employee benefits traditionally have been left to labor-management bargaining, but Hill Democrats are pushing legislation to force private firms to grant parents 10 weeks of unpaid leave. During the campaign, Bush spoke favorably about the concept without offering specifics. Though business remains adamantly opposed to this provision, which was filibustered to death last fall, administration support makes passage of some measure likely.

Campaign Finance Reform. Public financing of congressional elections has been a particular favorite of Democratic legislatures; numerous bills have been introduced to limit or eliminate private contributions and expenditures, especially money from political action committees (PACs) and the so-called soft money collected and spent by state parties. During the last session a sustained Republican filibuster killed changes in the law, but the 1988 election dampened GOP enthusiasm for PACs: most of them supported incumbents, no matter how liberal or antibusiness. So expect legislation this year to restrict PAC contributions, though Bush has expressed no opinion on the issue.

Education. George Bush has said that he wants to be the "education president." What could it mean but more federal spending? Congress will be only too happy to comply. Ronald Reagan pledged to dis-

mantle the Department of Education; its outlays actually jumped from $13.1 billion to $18.8 billion during his tenure. The only thing that will prevent outlays from rising faster under Bush, who has already endorsed $500 million for schools with disadvantaged students and an extra $50 million for experimental research, is the pressure to reduce the deficit.

Environmental Regulation. The Clean Air Act is up for reauthorization—business lobbyists narrowly averted passage of a more burdensome regulatory regime last year—and bills have been introduced in both chambers to limit smokestack effluents (to control acid rain) and to tighten auto emission standards (to reduce urban pollution). Environmentalists also want Congress to restrict leasing in federal coastal areas, adopt mandatory controls over chlorofluorocarbons to protect the ozone layer, and limit the use of fossil fuels to slow the much-ballyhooed "greenhouse effect." Market-oriented strategies could provide better protection at less cost, but Bush demonstrates neither the interest nor the will to divert Congress from the traditional regulatory approach.

Takeovers. While Bush has defended the freedom of shareholders to sell their stock to consenting adults, many Democrats on Capitol Hill are anxious to limit mergers, especially hostile takeovers, either through direct restrictions or changes in the tax law. Proxmire's retirement gets rid of one enthusiastic supporter of more federal controls, but the recent spate of well-publicized leveraged buyouts has bolstered efforts, previously endorsed by such corporate pillars as the Business Roundtable, to "do something." Only administration opposition—and Congress's need to concentrate on such issues as the S&L crisis—may stymie new legislation.

Miscellaneous Meddling. Republicans are inclined to intervene in private affairs, just on a smaller scale than the Democrats. As a result, the president and Congress are likely to spend most of this year debating how much to spend reshaping society, not whether to do so. Bush, for instance, has proposed allowing uninsured Americans to "buy into" Medicaid at a cost of $400 million in 1989 and an extra $200 million a year through 1992. However, independent analysts calculate that the expense of covering even the 5 million children now in poverty would run $2.5 billion annually. Bush wants taxpayers to throw $100 million behind a new program to promote volunteerism, Youth Engaged in Service. But his proposal could be easily hijacked by Democrats who want a much larger, and more expensive, program of national service for all youth. Bush has also urged "full funding" of the McKinney Act, which would cost an extra $300 million, to provide federal services for the homeless, even though the problem is a local one.

Moreover, the president is committed to pressing for more military spending and may be willing to trade extra butter for additional guns. Other issues on Congress's agenda that seem likely to be debated if not passed this year include further restrictions on trade, federal provision of long-term health coverage, reregulation of the airlines, multi-billion-dollar modernization of the government's nuclear weapons production facilities, new sanctions on South Africa, and escalation of the drug war, including finding an extra $2.3 billion to pay for programs authorized late last year.

Market-Oriented Initiatives. If Bush acts on his campaign promises, he will confront Congress with a handful of sensible proposals—a "college savings bond" that would defer interest on money saved to pay for college and stepped-up use of vouchers to help provide low-income housing, for example. Neither initiative seems likely to get far in Congress, however; the Democrats took years to authorize even limited tenant management and ownership of public housing units. Bush also wants to cut the capital gains tax, but Democratic demagogues are certain to trounce the issue. And on this and other issues, Senate Minority Leader Robert Dole could prove an even greater stumbling block, since he lacks any ideological commitment to Bush's program and personally dislikes the man who defeated him in the Republican primaries.

Despite the voters' superficial affirmation of the "Reagan Revolution" in November, President Bush will not be leading a blitzkrieg against the welfare state; instead, 1989 will be a year of trench warfare between liberal Democratic ideologues on Capitol Hill and moderate Republican pragmatists in the White House. Whoever wins the battles, the American people will end up losing ground.

Contributing Editor Doug Bandow is a syndicated columnist and a senior fellow at the Cato Institute.

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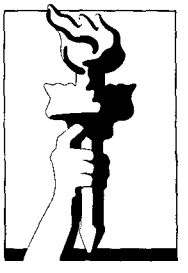

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Free Worlds

By J. R. Dunn

Science fiction is a misunderstood genre. Today it enjoys a respectable amount of popular and critical acceptance, but many people still think SF (the preferred term) deals primarily with scientific and technical ideas—interesting to a handful of techno-nerds, perhaps, but too esoteric.

In fact, for many years SF has been a political genre, far more concerned with social speculation than with scientific gadgetry. As fascinating as technological advances may be in themselves, their considerable social ramifications can be far more dramatic and exciting. Consider the invention of the automobile. When conceived, it may have represented nothing more than a new combination of scientific principles interesting only to engineers. But this simple contraption revolutionized life in America. The ongoing development of computer technology will effect even more profound changes in our lives.

From a purely literary standpoint, it's impossible to tell a gripping story without a believable social context. In SF this context must be created out of whole cloth, which is not true of any other branch of literature, either mainstream or historical. SF stands alone in its ability to portray and analyze new forms of society.

Needless to say, much of what passes for political speculation in the genre does not cut very deep. It is always easier to use prefabricated ideas than to build a social system from scratch, and often SF writers simply adopt whatever political notion is current at the time of writing. This explains why much SF, from the "mad capitalism" novels of the early '50s (in which society is taken over by Madison Avenue or some kind of megacorp) to the ecological, soft-tech utopia works common two decades later, has had a distinct collectivist tinge.

But at the same time there has been an alternative movement—small at first but growing over the years—based on libertarian principles of maximum individual freedom. Some of the finest writers in the field, such as Eric Frank Russell, Poul Anderson, Jerry Pournelle, and certainly Robert A. Heinlein, were writing stories on themes that could only be called proto-libertarian. At times, this emphasis moved into the open, as in Heinlein's *The Moon Is a Harsh Mistress*. His philosophy of "rational anarchism"—essentially, the theory that governments and social institutions can have no greater moral rights than individuals—introduced libertarian ideas to many readers. All the same, until the 1980s such themes played a relatively minor role in the science fiction world.

In the late '70s, dogmatic liberal and left-wing ideologies ran rampant through SF literature. Perhaps in part as a reaction, writers such as F. Paul Wilson, L. Neil Smith, Brad Linaweaver, and J. Neil Schulman created an antistatist subculture within SF. In the decade since this group appeared, libertarian individualism has become the spearhead of serious political writing in SF—no small accomplishment, and one worthy of far more critical attention than it has yet received.

F. Paul Wilson was the first of the new generation of outright libertarian writers. In the early '70s he wrote a series of stories about the LaNague Federation, a star-spanning society founded upon libertarian principles. He later expanded the series into three novels, *An Enemy of the State*, *Healer*, and *Wheels Within Wheels*.

The best of these, *Wheels Within Wheels*, gives a solid picture of Wilson's political ideas. In it the federation, based on the free market and a complete separation of government and business, is threatened by a group called the Restructurists, a statist movement modeled on today's liberals, who attempt a takeover using a war scare and economic pressure. In the end they are foiled, but—in keeping with libertarian ideals—are allowed to secede without much fuss.

Wheels shows a depth of economic sophistication unusual in a popular novel, particularly in showing how manipulation of the economy can be used as a political weapon. Low-key and well thought out, Wilson's work is marked by incisive political speculation as well

BONNIE MCKAIN

as a quality rare in any type of fiction that can only be called decency. He creates real characters, not stereotypes, and treats them as human beings instead of narrative devices to be sacrificed when convenient.

The most freewheeling of the new libertarians is undoubtedly L. Neil Smith. Active in politics (he made a respectable showing in Colorado as a Libertarian Party candidate for state senate, despite almost no financing), he has long experience in law enforcement as a part-time cop and later as a consultant to police departments.

Smith's first novel, *The Probability Broach*, showed a distinct Heinlein influence. This was an example of a subgenre called the "alternate world" story, in which history has taken a different turn and events have unrolled accordingly. *The Probability Broach* portrayed a decadent America nearly destroyed by government intervention and contrasted it with an alternate society working along libertarian lines. In this world the first U.S. secretary of the Treasury, Albert Gallatin, became the true founder of our country. He was a kind of libertarian Marx, serving several terms as president and attaining the status of a worldwide revolutionary saint. Smith calls his political system "Propertarian"—all rights are seen as property rights, to be defended as such. This idea is taken to the farthest possible extreme—armed vigilantes commonly redress property crimes, and dueling is an acceptable way of resolving disputes—as much for entertainment as didactic purposes.

Half the interest of alternate world stories lies in seeing how the author handles his artificial history, and this one is a doozy, with George Washington reviled as a tyrant and such figures as Geronimo, H. L. Mencken, Ayn Rand, and "none of the above" acting as president at one time or another. Smith's major contention is that a free society is bound to be more technically advanced than any other type, and he makes his point with some of the most impressive and interesting gadgets in years.

A light, deft stylist, Smith is much given to satirical flourishes and puns. The story is carried on in *The Venus Belt* and *Tom Paine Maru*, as the Propertarians straighten out statist America and begin to colonize the galaxy. It is a wild and funny series well worth reading. One wishes that all politically oriented fiction were this much fun.

The newest of the group is Brad Linaweaver, whose major work so far is *Moon of Ice*, another alternate world story, based on the evergreen premise that Hitler won the Second World War. The setting is a world much like our own, with an uneasy nuclear standoff between the United States and a Nazi Europe. The libertarian element arises with the German Freedom League, a group of young Germans who, disgusted with the crimes of their elders, have united with various resistance movements to bring down the Nazi tyranny. *Moon of Ice* (the title is taken from the pseudoscientific "World Ice" theory popular under the Nazi regime) is a technical tour de force. It is written as a series of diary entries by the aged Joseph Goebbels. After rewriting history to justify the more loathsome events of his career, he discovers that the SS, far gone into Teutonic mysticism, intends to carry out the most deranged aspects of Nazi racial theories. Even he is horrified.

Moon of Ice caused quite a stir when first published in a short version, gaining a nomination for the Nebula Award, SF's highest professional honor. Recently expanded to novel length, the book has met with an excellent critical reception, and Linaweaver is off to a career as a major writer.

But the star of the group is J. Neil Schulman. He appeared out of nowhere in 1979 with *Alongside Night*, which depicted a libertarian revolution in a near-future America. Revolution has always been a popular subject in SF as one of the few major political events that can be shown in all aspects on a small canvas. *Alongside Night* was one of the most plausible revolutionary novels in some time.

Again we see an America on the skids, wracked by hyperinflation and crime, on the verge of turning into a police state. Opposing this is the Revolutionary Agorist Cadre, a free-market outfit that arose naturally out of the current underground economy. Already in control of the economy, the Agorists attempt to take political control without the bloodshed and destruction that would result from a conventional uprising. Schulman describes their struggle in vivid and compelling detail.

Alongside Night became one of the most widely hailed libertarian novels since the classic works of Ayn Rand (*Anthem* and *Atlas Shrugged*), garnering praise from critics outside the genre including Anthony Burgess (*A Clockwork Orange*). Schulman's second novel, an antiutopian work called *The Rainbow Cadenza*, marks a slight falling off—not surprising when compared to a masterpiece—but is still good reading.

As it stands, libertarian ideas have become a major force in the genre. While good work is being done at all ends of the political spectrum—Ursula LeGuin's anarchist and pacifist utopias and Norman Spinrad's novels of media power are examples—libertarians are beginning to set the agenda. In the last few years their ranks have grown to include Melinda Snodgrass, Vernor Vinge, Victor Koman, and Victor Milan—clearly implying that libertarianism has settled in for a long run.

Critic Roland J. Green recently complained in *Amazing Stories* that in SF, economics is divided between "the illiterates and the anarchocapitalists"—a statement that can be taken as a compliment to the power of libertarian thought. It's ironic that a literary genre once considered an oddball offshoot of negligible interest should become the fictional voice of a political movement often dismissed in the same manner.

But it may go deeper than that. In the last decade SF has emerged as a power in the publishing industry, making up a fifth of all books published and a full quarter of profits. For the first time, SF novels regularly appear on the bestseller lists. Science fiction has come of age and is now being read by more people than ever before. In this context, the partnership between SF and libertarian ideas takes on a new meaning.

One of the most important functions of the genre as political literature is that it can look forward to future societies to see what mode of life is desirable and what should be avoided at all costs. As collectivist governments and ideologies, responsible for the most horrendous crimes against humanity in this century, begin to recede, it is of crucial importance that an alternative—based on freedom, respect for the individual, and a sane economic system—be presented. Alone in popular culture, science fiction points the way.

J. R. Dunn is a free-lance writer living in New Brunswick, New Jersey.

Defending the "Peace Shield"

By Ted Galen Carpenter

While Others Build: The Commonsense Approach to the Strategic Defense Initiative
By Angelo Codevilla, New York: Free Press, 256 pages, $22.50

BONNIE MCKAIN

Few issues in recent memory have become more of a political and ideological litmus test than Ronald Reagan's 1983 proposal to develop an antiballistic missile defense system for the United States. Virtually without exception, liberals have lined up to oppose an ABM system, while conservatives have embraced it as essential to the nation's security. Often the jargon employed by participants in the debate reveals their position even before one examines the substantive arguments. Reagan and his supporters promptly termed the proposal America's Strategic Defense Initiative (SDI) and frequently used the laudatory term "peace shield." Opponents typically refer to the initiative as Star Wars, implying both that it is based on fantasy and that it would mean a dangerous militarization of space. Consequently, both the scholarly and the political debates on SDI have thus far generated more heat than light.

In at least one respect, Angelo Codevilla's *While Others Build* provides a refreshing contrast to such dreary predictability. Although a staunch conservative, Codevilla is as critical of the Reagan administration and its handling of this issue as he is of SDI's liberal opponents.

His thesis is thoroughly provocative. According to Codevilla, Reagan's rhetorical commitment to SDI substituted political symbolism for the need to make difficult decisions about U.S. strategic doctrine and the potential role of a defense against Soviet missiles. Moreover, the focus on a futuristic system based on yet-undeveloped technology has obscured the fact that existing technology could provide a significant degree of protection. "Both the Reagan Administration and its opponents have tried to avoid making responsible, public choices about ballistic missile defense," Codevilla contends.

Codevilla also disputes the notion that the most dangerous foes of an ABM system are liberal politicians and left-wing ideologues. Instead, he sees a more lethal opposition within the U.S. defense establishment itself, especially among Pentagon officials who have a vested interest in the status quo and regard a missile defense mission as a budgetary competitor with existing programs.

While Americans are mired in an increasingly pointless debate about tangential issues—the technological feasibility of a futuristic SDI, whether the Soviets could counter such a hypothetical system, and to what degree the 1972 ABM Treaty would inhibit the United States from testing or deploying it—Moscow has already developed and deployed missile defenses based on relatively mundane technologies. This action, combined with the Soviet Union's acquisition of counterforce ICBMs, has given that country a dangerous first-strike capability and undermined the ability of the United States to deter aggression or nuclear blackmail directed against the West, according to Codevilla. If the United States wishes to reverse the shift of the global military balance toward the Soviet camp, it must create a new strategic doctrine to replace the long-irrelevant concept of mutual assured destruction (MAD), as well as transcend the doctrinal drift of the Reagan years and begin to deploy ABM defenses.

Codevilla turns in a mixed performance in presenting credible evidence to support these various arguments. He builds a solid case for the proposition that Ronald Reagan did not invent the wheel when he delivered his SDI speech in March 1983. Interest in and work on ABM defenses had a distinguished pedigree going back to the 1950s. Reagan's address was a belated acknowledgment of growing congressional and public support for the concept throughout the late 1970s and early 1980s.

Likewise, it is difficult to argue with Codevilla's conclusion that it is possible now, not merely in the distant future, to

create a modestly effective defense against missiles and that early deployment would benefit the American people. Any ABM system, however imperfect, would be far preferable to the current absence of a defense. As it is, even an accidental launch of a few dozen Soviet missiles would inflict horrendous damage on the United States. And the danger to the American population is likely to mount in the coming decades as more countries acquire nuclear weapons and the means to deliver them.

Codevilla's allegation that Reagan and his advisors opted for the politically appealing SDI as a way to avoid making hard decisions about the republic's strategic doctrine also has the ring of truth. The Reagan administration practiced the politics of evasion on a host of issues, not merely ABM defenses.

Other parts of Codevilla's thesis, however, are less convincing. His view that "nothing in the letter of the ABM Treaty prohibits either signatory from building a good antimissile defense," and that perceived obstacles are the product of a needless intramural debate in the United States, rests on dubious reasoning. He professes to find ambiguous provisions throughout the treaty, but that is due more to an eagerness to discover such elasticity than to any reasonable interpretation of the pertinent passages. For example, he attaches cosmic importance to the treaty's definition of ABM as a system "*to* counter strategic ballistic missiles" rather than "can counter" or "may be able to counter" (Codevilla's emphasis).

It is one thing to argue that the United States government made a serious error in agreeing to the ABM treaty and that we should not let that document prevent the creation of a system to protect the American people from possible annihilation; it is quite another to contend that a treaty for the explicit purpose of banning ABMs poses no obstacle to the development of such a defense. A more honest approach would be simply to withdraw from that unwise treaty.

Codevilla also fails to support his argument that opponents of an ABM system are motivated by a pervasive moral agnosticism. He asserts that a typical ABM opponent "does not believe that the U.S. government and society stand on a qualitatively different moral plane from those in the Soviet Union, and, therefore, that it is his duty to move earth—if not heaven—to preserve the American way of life."

His allegation is a variation on popular innuendoes that critics of U.S. defense and foreign policies see a "moral equivalence" between Western and communist societies and that those critics are members of a "blame America first crowd." At best such assertions are inaccurate; at worst they are examples of a growing neo-McCarthyism. Furthermore, Codevilla does not present a scintilla of evidence that ABM opponents are animated by a belief in East-West moral equivalence.

But there are more serious problems with Codevilla's analysis. Most egregious is an inadequate appraisal of overall U.S. defense policy and its relevance to the subsidiary issue of missile defenses. For example, throughout the book there is an implicit—and occasionally explicit—assumption that the principal mission of an ABM system is to deter or, failing that, to parry a Soviet first strike. Yet Codevilla is surely aware that NATO doctrine is based on Washington's willingness to breach the nuclear threshold even in response to a Soviet conventional attack on Western Europe. (The same principle undoubtedly applies to other significant U.S. allies, such as Japan.)

Nor is it true that a U.S. response would involve only battlefield or theater nuclear weapons. NATO's European members have no interest in a strategy that would enable the two superpowers to fight a limited war confined to the continent. The concept of extended deterrence assumes that the United States would be willing to use its strategic arsenal against the Soviet homeland.

NATO defense doctrine, combined with Moscow's continuing conventional military superiority in Europe, means that the United States, not the Soviet Union, would be more likely to launch a first strike. That fact has profound implications for the ABM debate. Would acquisition of an ABM system enhance this country's capability to launch a first strike by guaranteeing that the American population could survive any retaliatory attack from depleted Soviet forces? If so, would such a system be destabilizing, thereby increasing the danger of nuclear war? Is the Soviet ABM program at least partly motivated by concern about the prospect of a U.S. first strike? These and other questions deserve to be addressed, but Codevilla fails to do so.

Indeed, the principal weakness of *While Others Build* is its pervasive acceptance of America's global security policy as legitimate. That attitude is especially disappointing since Codevilla has elsewhere expressed skepticism about U.S. strategy, most notably about aspects of the commitment to NATO. But in this book

Book Hints

Do employee stock ownership plans (ESOPs) constitute a genuine revolution in industrial relations? **Employee Ownership: Revolution or Ripoff**, by management expert Joseph Blasi (Cambridge, Mass.: Ballinger, 335 pp., $27.95), looks at the promises and problems of ESOPs as a means of improving labor-management relations and industry vitality.

Privatization, classical liberalism, free-market economic thought—these ideas continue to set the intellectual trend as the '80s come to a close. **Privatization: An Economic Analysis**, by John Vickers and George Yarrow (Cambridge, Mass.: MIT Press, 453 pp., $39.95), offers an up-to-date and comprehensive assessment of Britain's extensive effort to sell off government assets and enterprises.

The Theory of Market Failure, edited by REASON author Tyler Cowen (Fairfax, Va.: George Mason University Press, 384 pp., $21.75) brings together seminal articles in which prominent economists such as Ronald Coase, Harold Demsetz, and James Buchanan challenge the view that the existence of public goods is an automatic rationale for government intervention. The volume includes two case studies of the private provision of public goods—fire protection and recreational services—by Robert W. Poole, Jr.

Another collection, **The Firm, the Market, and the Law**, includes some of the key writings of economist R. H. Coase (Chicago: University of Chicago Press, 217 pp., $29.95), who has had a profound impact on modern economics, particularly in his examination of the effect of the law on the working of the economic system. —L.S.

that healthy skepticism is absent. He shows no willingness to distinguish between the requirements of primary deterrence (discouraging an attack on the United States) and extended deterrence (discouraging an attack on allies and clients), even though the latter is considerably more difficult and demanding than the former. Nor does he exhibit any awareness that an ABM system might play very different roles in a strategy that jettisoned extended deterrence and one based on that doctrine.

Codevilla's neglect of such fundamental issues is unfortunate, because his narrower thesis that the United States can and should build an ABM system as soon as possible is well argued and compelling. But that system should be built to protect the American people against the omnipresent threat of annihilation, not in some vain pursuit of a way to restore the waning credibility of extended deterrence. In the final analysis, the ABM debate cannot be separated from the increasingly imperative need to reassess the nation's overall defense policy.

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The Conscience of a Curmudgeon

By David Brudnoy

Goldwater, by Barry M. Goldwater with Jack Casserly
New York: Doubleday, 403 pages, $21.95

Curmudgeons come and go in American politics, as in other free societies, rarely leaving any traces other than anecdotes chronicling their curmudgeonliness. Who can remember anything that Ohio's Sen. Steve Young ever did in Congress other than that he responded to hostile letters with a rejoinder that went: "Some horse's ass is signing your name to his letter. I thought you'd like to know."

Will Barry Goldwater leave behind him no more than selected grouchy remarks about the high and the mighty and periodic outbursts? This past year, the former Arizona senator unburdened himself of a near-total condemnation of the Republican convention: its tedium, the bad acoustics at the convention hall, the hubbub, the blather. And not all that long ago, as the senator's party seemed about to perform a mass groveling before the Rev. Jerry Falwell and his Moral Majority, our straight-talking curmudgeon cut through the moo and said that "somebody ought to give Falwell a swift kick in the ass." These endearing grumblings threaten to take on a life of their own, such that Barry Morris Goldwater might be remembered, if remembered at all, merely as a politician who spoke his mind.

Such is often the fate of pioneers who didn't cross over into the Promised Land. After all, Barry Goldwater suffered a devastating loss when, pushed to run for president against his instincts and desires, he went down before the Lyndon Johnson juggernaut in 1964. Quick now, name the four people who lost to Franklin Roosevelt.

Barry Goldwater: Like the man, the book is plain, crotchety, unadorned, relatively unsentimental, and right-on.

But if Goldwater never made it, he made possible the career of the one who did. It was his nicely packaged, simple, inspiring speech on behalf of Goldwater in 1964—and it was *a* speech, endlessly reiterated across the land—that launched Ronald Reagan's political career. From service for Goldwater in 1964 to the California governorship in 1966 to a run for the GOP nomination in 1968, then another in 1976, and then victory in 1980, Ronald Reagan incarnated the promise of Goldwater, becoming, if you will, the Joshua to Goldwater's Moses.

The rest is history, and in a jerkily written, rambling, yet charmingly on-target reminiscence, the Arizonan has selectively recalled important swatches of that history. Along the way, he offers well-trod yet still inspiring glimpses into his family's history and his own youth, young manhood, and emerging involvement with politics. *Goldwater* is not the history of conservatism in America, as, for instance, George Nash has so carefully provided. Nor is it the intellectual, witty grand overview that might have come from William F. Buckley, Jr.

Like the man, the book is plain, crotchety, unadorned, relatively unsentimental, and right-on. If not the stirring call to activism and promise of triumph that *The Conscience of a Conservative* was (and believe it or not, remains: just read it again, and you can feel the juices of millions of young Americans flowing), *Goldwater* is a fitting coda to a career that has had vast significance beyond the particular victories and disappointments of the man himself.

The authors fail in one significant particular: *Goldwater* skims the Reagan years, leaving us with profundities like: "Reagan...has a gift of eloquence and generosity of spirit that demonstrates the concerns and compassion of Republicans and others." This is neither analysis nor reminiscence; it is fatuous and unenlightening. Perhaps the senator and his coauthor, Jack Casserly, lost steam as they rushed the book through to completion. More likely, Goldwater decided to stand back from the present administration and the current president and leave to others the task of evaluating the '80s. A pity, that, since Goldwater served in the Senate through 1986. His comments are unsparing about the woeful decline of talented and knowledgeable senators. He doesn't much like what he has seen in recent years and hints at some

dramatic reforms of Congress. But he says far less than he suggests.

Not so on pre-Reagan personages, among them Richard Nixon: "The most dishonest individual I have ever met in my life. He lied to his wife, his family, his friends, his colleagues in Congress, lifetime members of his own political party, the American people, and the world." And Bob Dole, who "doesn't have the leadership qualities that his job as Minority Leader requires. He tries to make everybody happy." The reader will not be surprised by Goldwater's less-than-flattering references to selected Democrats, though his vast affection for John F. Kennedy and his tremendous respect for Hubert Humphrey might give conservative zealots pause. Barry Goldwater admires guts, people of principle, and generosity of spirit. He abhors deceit, ambivalence, hypocrisy, and meanness, which qualities he finds in ample abundance in the man who beat him in 1964, Lyndon Johnson.

The central message of *Goldwater* is a clear-cut justification of the conservative faith: in small government (I speak now of vaunted conservative principles, not of the Leviathan that Ronald Reagan and his horde have championed), in Americanism, in individualism, in respect for each person irrespective of condition, race, religion—the usual litany. Goldwater explains his vote against the Civil Rights Act of 1964, angrily defends himself against the stupid charge that he is and was a racist, and without making himself a paragon of virtue does make his decisions based on basic principles plausible to the reader. He's a tough cookie, and he feels no more inclination now than ever to pander to the pious twaddle that passes for "values" among many in both parties.

A student of psychology might have some fun fabricating a theory of Goldwater's penchant for using anal images—"crap" and "ass" and "butt" and "rear end," and the like. And he regales us with his traditional New Year's Eve dance for his grandchildren: "I would bend over, flip up my nightshirt, and show my bare bottom." Maybe it is just the glaring contrast between Goldwater's earthy language, here in a public place in his new book, and the sanctimonious moralistic claptrap that issues from the mouths of today's bunch of conservative hotshots, that brings these particular words their surprising effect.

Goldwater is a nice if not brilliant addition to anybody's library of political commentary. In the spirit of Goldwater's own choice of words, one may say that it's short on bullshit and long on plain talk. The book is a paean to freedom, its subject's career a testament to valor, decency, and belief.

Contributing Editor David Brudnoy is a radio talk show host for WBZ in Boston and a cable-television and newspaper film critic.

Peru's Peaceful Revolution

By Alejandro Chafuen

The Other Path, by Hernando de Soto
New York: Harper & Row, 272 pages, $22.95

Few books by free-market authors have achieved the goal of selling, in only one year, more than 100,000 copies. It is even harder to find Spanish publications that have had any noticeable impact in the United States. *The Other Path*, by a Peruvian businessman-turned-intellectual, Hernando de Soto, accomplished both goals even before the release of its English edition. The success of the book lies not only in the quality of its in-depth analysis but also in de Soto's unique style, which brings together sound economic analysis and a constant concern for the poor and oppressed.

The main virtue of *The Other Path* is its demolition of some widely held myths about Latin American development:

Myth 1: Latin Americans lack an entrepreneurial spirit.

Myth 2: The United States is the region's main oppressor.

Myth 3: The current economic system in most Latin American countries is predominantly capitalist.

To take just the first myth, in detailed field studies de Soto found that Peru does not lack entrepreneurs, but most of them have been driven out of "the formal sector" by state oppression—for example, a plethora of regulations, taxes, permits, and licensing laws. During a simulated registration process, in which bribes were requested 10 times and had to be paid twice, de Soto demonstrated that it takes 289 days to register a small factory in Peru. And the total cost of registering was eight times the Peruvian GNP per capita. The result? The poor cannot afford to obey the government.

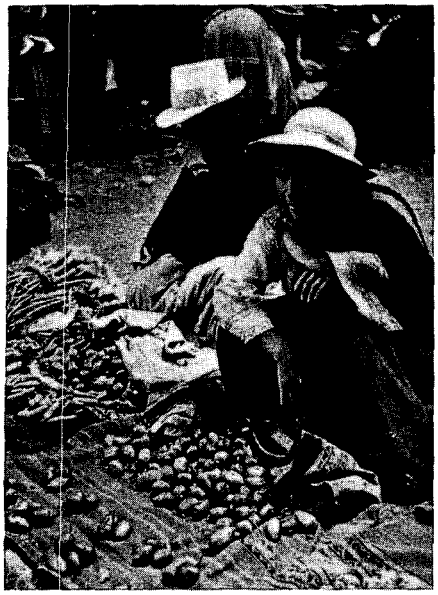
What stifles Latin American entrepreneurship is not a lack of risk-taking individuals but extensive and repressive economic regulations.

Consequently, some 60 percent of the work force operates in the informal sector, without the required licenses and permits. De Soto and his researchers calculate that this work force accounts for nearly 40 percent of Peru's gross domestic product.

In publicizing these findings, de Soto dispels the myth that the Latin American population "is different" and incapable of taking advantage of market opportunities. What stifles entrepreneurship is not a lack of risk-taking individuals but extensive and repressive economic regulations.

De Soto defends those who have been displaced from the legal sector and condemns entrepreneurs who "feel more comfortable collaborating with an interventionist power, with whom they can make deals, than advocating a market economy which has no omnipotent ruler who can come to their rescue." The underground entrepreneurial class, he maintains, constitutes valuable, even indispensable, human capital. This group has given hope and an income to a growing number of people and provided an avenue for social mobility and productive opportunity.

Hernando de Soto is not an orthodox classical liberal. For example, he defends the right and duty of the state to redistrib-



Sixty percent of Peru's work force operates without the required licenses and permits.

ute wealth to the poor. Nonetheless, both his analysis and his policy recommendations suggest that the best way to help the poor is to allow the evolution of a system of private property.

At times, de Soto seems to regret that the underground, or informal, economy serves as a barrier to implementing government economic policy. Yet, far from being a liability, as he implies, this barrier to social engineering has actually prevented establishment of a complete technocratic dictatorship. If government attempts to manipulate economies miss their targets in the broad daylight of the formal Western economies, imagine their ineffectiveness when they shoot in the dark of an economy dominated by black markets.

In spite of these drawbacks, *The Other Path* is mandatory reading for anyone concerned with Latin American problems. Reaching back to the Spanish colonial era, it provides a brilliant history of Peru's economic, social, and political institutions. His analysis provides a better understanding of the causes of underdevelopment than the explanations favored by American intellectuals either of the left, who blame the capitalist system, or of the right, who frequently fault "backward cultures." De Soto does not deny that cultural differences play a role in economic development, but he proves that the legal system, which poorly defines and protects property rights, is the main explanation for the difference in development of industrialized Western nations and Third World nations like Peru.

A question deserving lengthier study is what accounts for the adoption of these different legal systems. It is not enough to blame, as de Soto does, the Hispanic mecantilist heritage or the role of special interests. Most of the failed policies implemented in Peru and the rest of Latin America received intellectual or financial support from U.S. bureaucrats and scholars. These people have little knowledge and biased perceptions of Latin American realities. For example, in the '60s, U.S. policymakers ushered in with much fanfare the Alliance for Progress, an aid program that recommended a variety of interventionist economic reforms. Likewise in the '70s, the United States made land reform and other antimarket policies a precondition for aid to El Salvador.

In their reinforcement of myths about Latin America, U.S. Latin American scholars and policymakers, mostly social engineers or émigrés who distrust markets and private property, have been aided by a lack of empirical studies with sound theoretical foundations. *The Other Path* will make it more difficult for such analysts to ignore the conditions of human prosperity. De Soto incorporates into his analysis the latest contributions to social science from scholars such as F. A. Hayek, James Buchanan, Gordon Tullock, and Douglass North and provides empirical corroboration for their theories. Drawing from Hayek, de Soto shows the importance of a spontaneous ordering of human activity, rather than an imposed order. He utilizes Buchanan and Tullock's public choice theory to show how many commercial regulations result from interest groups pursuing economic advantage in the political arena. From North's work, de Soto builds the case for private property as essential to economic development.

This Peruvian intellectual is at his best in the uncompromising words of the conclusion: "We are convinced that, the more we treasure the importance of the Rule of Law, the more we will realize that the true problems lie not in the informal sector but in the formal sector." De Soto tags the rebellion against the state that takes place in the form of the underground economy "the other path," playing off the name adopted by Peru's Maoist guerrillas, The Shining Path. As long as government intervention in the economy by lefist and rightist regimes continues, the peaceful revolution of the underground economy may well be "the only path" for the survival of the private sector. As Arturo Fontaine, another leading Latin American, said, "A new path has been opened, and the people are treading on it."

Alejandro Chafuen is director of Latin American Affairs at the Atlas Economic Research Foundation in Fairfax, Virginia.

The Old Man and the Bureaucrats, by Mircea Eliade. Chicago: University of Chicago Press, 128 pages, $7.95. The newly released paperback edition of *The Old Man and the Bureaucrat*, one of Mircea Eliade's finest novels, underlines the timeless quality of his work. The Romanian-born novelist and scholar, whose interest in the cultural and psychological roots of religion was rivaled only by his fascination with secular human passion, has combined insight into the nature of folklore and mythology with uncanny understanding of communism and bureaucracy. Eliade's reputation as the consummate historian of ancient religions is accordingly incomplete, his novels having had too limited an audience. Yet they reverberate with symbol, yearning, and repudiation of the triviality and "linearity" of historical time. Eliade illustrates in his stories a need for transcendence, for ritual, for meaning, and for beauty.

What begins simply as a tale of an old teacher stopping in to visit a former pupil who had just moved into the neighborhood thus turns easily into a modern-day epic tale. Like Scheherazade narrating the *Arabian Nights* tales, Eliade creates a Persian carpet of stories, truth, and reality woven into a pattern of events whose outcome is in fact subordinate to the characters. Their lives intertwine, references return for further clarification, the very notion of time becomes almost irrelevant, as the teacher recounts the existence of another world: before the first and second world wars, before two sets of totalitarian rule obliterated fantasy and nostalgia—alternately, Nazi and communist.

But the ingrate pupil—now the head of the Romanian secret police—forbids his former teacher to reminisce, denying ever having attended even primary school, in line with his concocted story of de-

prived childhood, fabricated biographies being the stock in trade of the *nomenklatura*. Yet the police detain the old man, asking him to write what he knows, as police—particularly, though by no means exclusively, the communist variety—are wont to do. The teacher agrees gladly, telling stories with a classic Romanian folktale flavor and a powerful admixture of mythology.

His stories are of demigods and mortals touched by miracle: the statuesque Oana, the beautiful young woman who, until she finds the husband the gods have destined for her, obsessively weds man and beast after she is first raped, yet preserves a childlike innocence; the Romanian peasant women in awe of Oana, believing her to have cast a spell on their husbands; the young man, a colleague of the secret police chief, in love with a woman alternately young and old, seemingly at will; the beautiful Arghira whose eyesight was restored by miraculous water; and more.

Rather than dismissing the teacher as a liar, dreamer, or worse, an artist—in short, an enemy of the people—the police, and even high-ranking members of the party hierarchy, continue the interrogation, intrigued by several events of political significance: for example, the defection of one young man to the Soviet Union and the total disappearance of another, a rabbi's son, into a cellar. Added to the mystery is the existence of a treasure, in almost fairy-tale fashion, that is allegedly discovered by a party member, who is subsequently found out. So the dichotomy is not clear-cut: the bureaucrats are part of the fantastic story, even if their role is merely that of Ali Baba's thieves.

The story ends with mystery, as it had begun. But it becomes clear that no ending matters, that no ending is possible. Accordingly, the story follows a respected antirealist tradition in Eastern European literature directly contrary to so-called socialist realism. Its Jungian approach—the archetypical themes of the human dream—is elegant yet earthy, the obvious result of Eliade's familiarity with the delicate, honest stories of mountain peasants. If the bureaucrats in Romania will never let this novel be published in its original musical language, at least English-speaking audiences will surely benefit and enjoy.

—Juliana Geran Pilon

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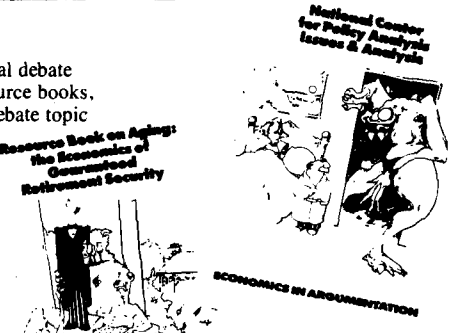
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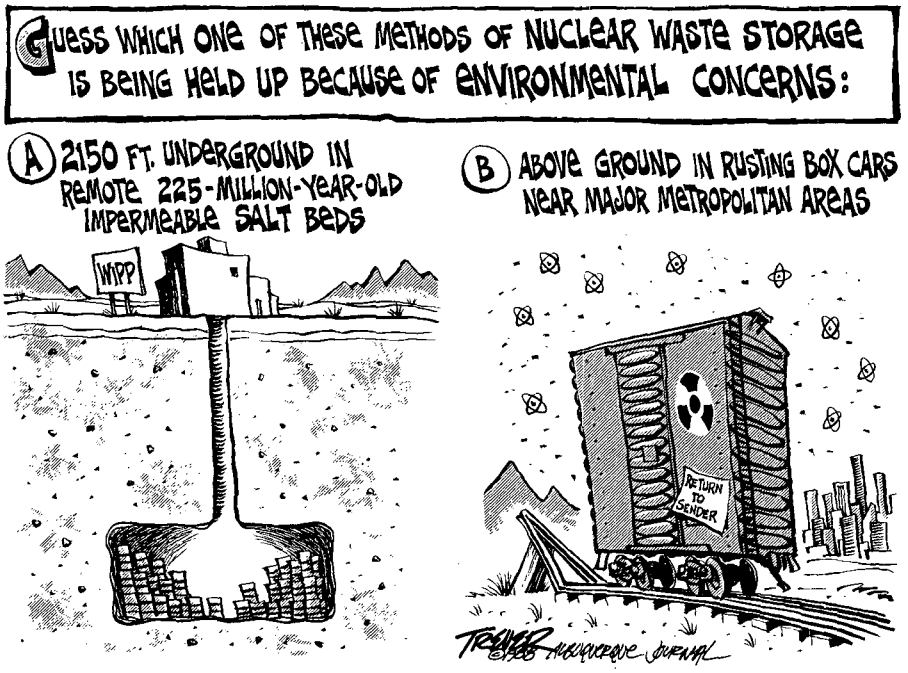
BRICKBATS

Vietnam's Communists enrolling in Business Management 101? The government abolished the country's school of business administration in 1975 but now it wants to reintroduce Western business skills as part of one university's curriculum. "They thought they did not need Western business practices," says a Georgetown University professor who was invited to start the courses in Vietnam. "That ended last year. Now they want to learn all they can about Western business practices, inspired by the prosperity of the Asian countries and China." Hanoi is even considering a private banking system. Perhaps they can give away free punji sticks with each new account.

In the past nine years, only one New York City public school principal has been expelled—and he resigned first in order to protect his lucrative pension. "You would have to be an ax murderer" to get fired, says a top education official. The subject came up recently because of the arrest of an elementary school principal for buying crack. Dozens of complaints about absenteeism and surliness had been lodged against the suspect long before the bust, but to no avail. The principal's union has a contract that would make a Teamster blush.

A Chicago police officer shot and killed a large brown dog that chased voters from a polling place during the November election. "The dog was a Republican," quipped Lt. Michael Boyle. "He was trying to keep Democrats from voting." Other Republicans should consider themselves warned.

Alann Steen may be the only man ever to wish he was able to appear in tax court. The IRS sent a letter to Steen, a college professor being held hostage by Iran-backed extremists for almost two years, threatening him with a penalty if he didn't pay back taxes within 30 days. As yet IRS authorities have not announced whether they will file a lien for Amelia Earhart's unpaid 1987 taxes.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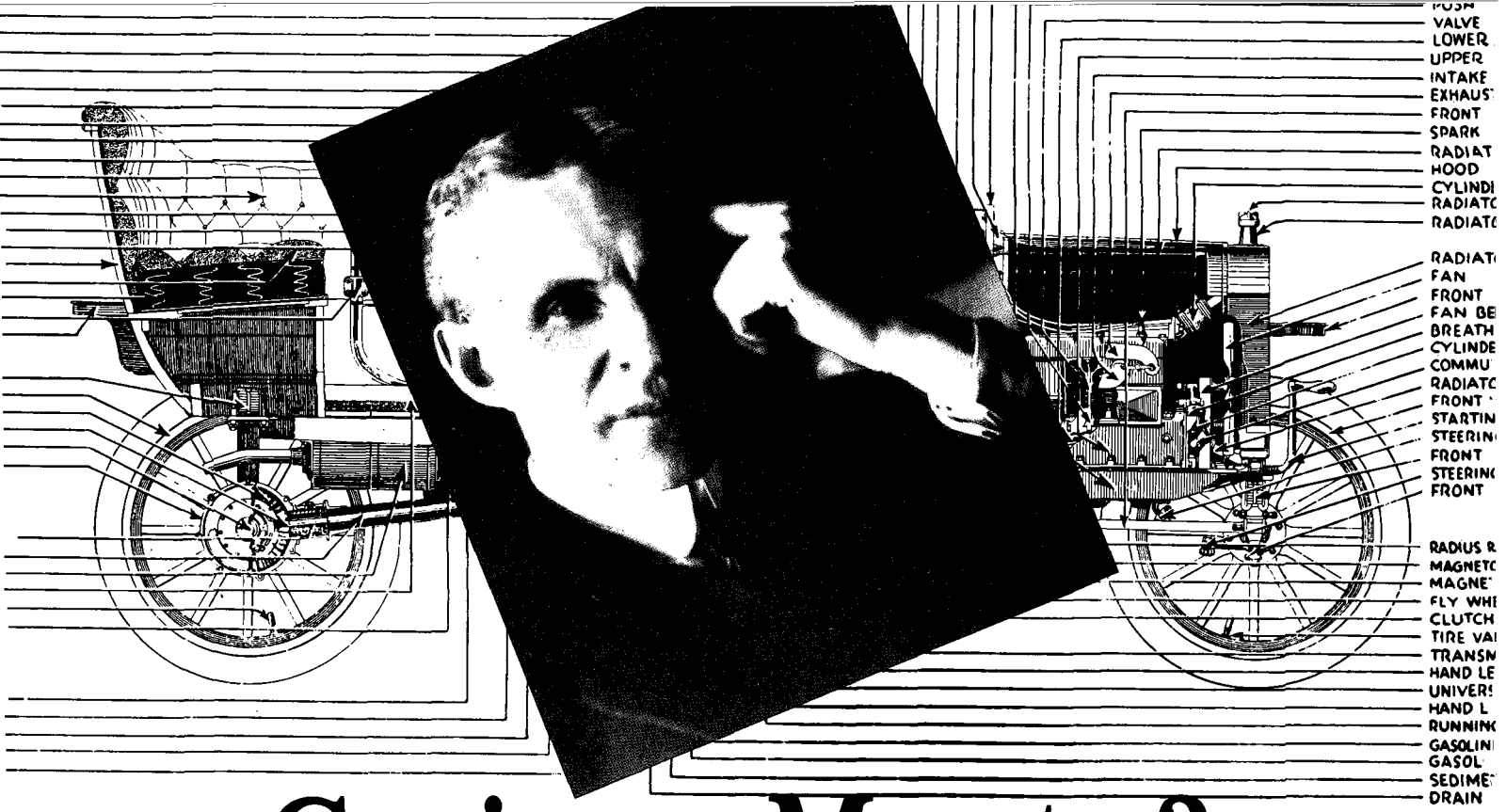
TROMBLEY ALBUQUERQUE JOURNAL

Newark, New Jersey, cab drivers are being sent to charm school. The idea is to cut down on the rudeness, speeding, and messiness of the 1,000 or so cabbies who service Newark International Airport. The Port Authority of New York and New Jersey and local municipalities and businesses are spending $120,000 for the plan, known as "Jersey Gents and Ladies, Too." The cab drivers cannot renew their licenses unless they attend. So they're lining up for such savvy advice as, "Do not drive on people's grass."

Jacksonville, Florida, nightclub owner Warren Colazzo got angry about a city law banning topless dancing at businesses selling alcohol. So he opened The Only Nude Car Wash in the Nation. Five nude dancers happily washed vehicles at $10 a car. Unable to find anything in the statutes under "Nudity, Car Washes," the Florida State Attorney's office finally determined that the car wash constituted a breach of the peace and a violation of public nudity laws (even though the car washers worked in an enclosed area).

Three years ago, nine New Jersey state troopers barged into Stanley Gurski's home, scared his wife and two sons, damaged their house, and helped themselves to food and drink while conducting a nine-hour search for illegal weapons. The cops found 185 firearms and displayed them proudly for the evening news cameras. The only trouble was, the guns weren't illegal. Gurski is a history buff and federally licensed arms collector. The cops declined his invitation to show them his permits, and they arrested him. Gurski was suspended for five months without pay from his job as a high school teacher until the criminal charges were dropped. Now, he's suing the police in a civil case. "I always taught my students how the grand jury system was one of our protections, but now I can't do that," says Gurski. Now he asks them, "Who's the watchman of the watchman?"

—Mark Edward Crane



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*An excerpt from David Halberstam's *The Reckoning*, published by William Morrow & Co. and Avon Books.
Art from the Collection of Henry Ford Museum and Greenfield Village.

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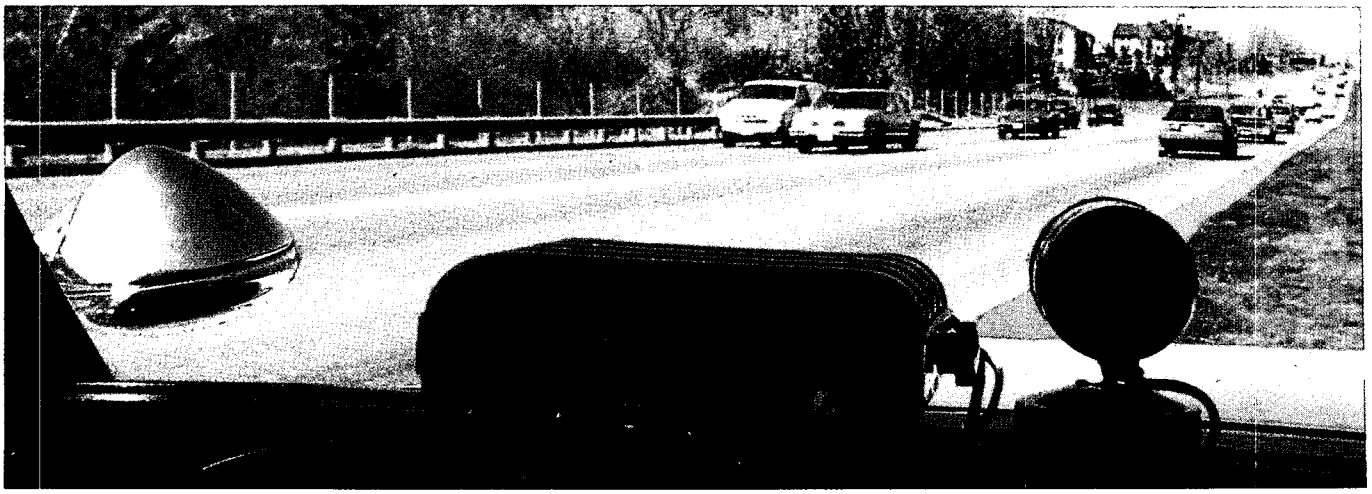

Traffic radar doesn't say which car is being clocked, it merely flashes a number. The radar operator must then try to determine which vehicle produced the reading.

Why radar makes mistakes. How to protect yourself.

Although nine different errors have been documented for traffic radar, the most common source of wrongful tickets is mistaken identity.

It's hard to believe, but traffic radar does not identify which vehicle is responsible for the speed being displayed. It shows only a speed number and nothing else. The radar operator must decide who is to blame.

How radar works

The radar gun is aimed at traffic and it transmits a beam of invisible radar waves. Each moving object within range reflects these invisible waves back to the radar gun. Using the Doppler principle, the radar calculates speed from the reflected waves.

Traffic radar is blind

Traffic radar works differently from military, air-traffic-control, and weather radars. The others use rotating dish antennas in order to track many objects simultaneously.

Traffic radar uses a far smaller, far cheaper, gun-shaped antenna. This simplification requires traffic radar to ignore all reflections but the strongest. The number displayed is speed calculated from the strongest reflection.

The best guess

Remember, these reflections are invisible. Truck reflections can be ten times stronger than car reflections. How can the operator know for sure which vehicle is responsible for the number?

The truth is, he can't be sure in many cases. The result is mistaken identity. You can be ticketed for somebody else's reflection.

Self defense

The only way to defend yourself against these wrongful tickets is to know when radar is operating near you. Others agree with this method. In his verdict upholding a citizen's right to use a radar detector, Judge Joseph Ryan, Superior Court, District of Columbia, wrote:

"If government seeks to use clandestine and furtive methods to monitor citizen actions, it can ill afford to complain should the citizen insist on a method to effect his right to know he is under such surveillance."

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We specialize in radar warning. And Escort and Passport do far more than simply find radar. Upon radar contact, the alert lamp responds and the meter shows radar signal strength. At the same time, you will hear an audio warning —pulsing slowly when the radar is weak, quicker as it strengthens, then constant as you approach close range. When you know exactly how strong the radar waves are, you'll know when the radar unit is near enough to actually have you under surveillance.

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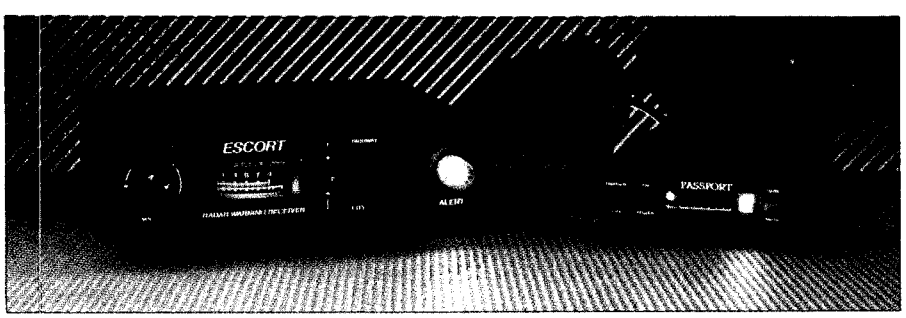

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